

RICHARDSON ELECTRONICS LTD/DE  
Form S-1/A  
October 26, 2006  
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 26, 2006

Registration Statement No. 333-125254

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Amendment No. 3**

**to**

**FORM S-1**

**Registration Statement**

*Under*

*the Securities Act of 1933*

**RICHARDSON ELECTRONICS, LTD.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**5065**  
(Primary Standard Industrial  
Classification Code Number)  
**40W267 Keslinger Road**

**36-2096643**  
(I.R.S. Employer  
Identification Number)

**P.O. Box 393**

**LaFox, Illinois 60147-0393**

**(630) 208-2200**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**David J. Gilmartin, Esq.**

**Vice President, General Counsel & Secretary**

**Richardson Electronics, Ltd.**

**P.O. Box 393**

**LaFox, Illinois 60147-0393**

**(630) 208-2200**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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*Copies to:*

**Scott Hodes, Esq.**

**C. Brendan Johnson, Esq.**

**Bryan Cave LLP**

**161 North Clark Street, Suite 4800**

**Chicago, Illinois 60601**

**Tel: (312) 602-5000**

**Fax: (312) 602-5050**

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

SUBJECT TO COMPLETION, DATED OCTOBER 26, 2006

**\$44,683,000**

**7<sup>3</sup>/<sub>4</sub>% Convertible Senior Subordinated Notes due 2011**

This prospectus covers resales by holders of our 7<sup>3</sup>/<sub>4</sub>% Convertible Senior Subordinated Notes due 2011 and shares of common stock into which the notes are convertible. We will not receive any proceeds from the resale of the notes or the shares of common stock hereunder. The notes are convertible, at holders' option, prior to the maturity date into shares of our common stock.

The notes may be converted into shares of our common stock at an initial conversion price of \$18.00 per share of common stock. The conversion price is subject to adjustment if certain events occur, as described in Description of the Notes. Upon conversion of a note, the holder will receive only shares of our common stock and a cash payment to account for any fractional share. Holders will not receive any cash payment for interest accrued and unpaid to the conversion date except under the limited circumstances described below. At any time on or after December 19, 2006, we may elect to automatically convert the notes if the last reported sale price of our common stock has been at least 125% of the conversion price for at least 20 trading days during any 30 trading day period, subject to certain conditions.

The notes bear interest at 7<sup>3</sup>/<sub>4</sub>% per year. Interest on the notes will accrue from February 15, 2005 or from the most recent date to which interest has been paid or duly provided for and will be payable semi-annually in arrears on June 15 and December 15 of each year, beginning on June 15, 2005. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

On or after December 19, 2006, but prior to December 19, 2007, we may redeem the notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding the date of redemption, provided that the closing price of our common stock has been at least 125% of the conversion price for 20 trading days during any 30 trading day period, subject to certain conditions. On or after December 19, 2007, we may redeem the notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding the date of redemption.

The notes mature on December 15, 2011 unless earlier converted, redeemed, or repurchased and will be issued in denominations of \$1,000 and integral multiples thereof. The notes were initially issued in the aggregate principal amount of \$44,683,000. The notes are subordinated to our senior indebtedness, including amounts borrowed under our credit agreement and future indebtedness that is not expressly subordinate to the notes. In addition, the notes are structurally subordinate to any indebtedness of our subsidiaries, including trade payables.

Prior to this offering, the notes were eligible for transfer on The Portal<sup>SM</sup> Market of The NASDAQ Stock Market, Inc. The notes sold by means of this prospectus are not expected to remain eligible for transfer on The Portal<sup>SM</sup> Market. We do not intend to list the notes for transfer on any national securities exchange. Our common stock is listed on The NASDAQ Global Market under the symbol RELL . On October 23, 2006 , the last reported sale price of our common stock was \$9.12 per share.

**Investing in the notes and the underlying shares of common stock involves risks. Before purchasing notes, see the information under Risk Factors beginning on page 11 of this prospectus.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**The date of this Prospectus is                      , 2006.**

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You should rely only on the information contained in this prospectus. Neither we nor the holders have authorized anyone else to provide you with additional or different information. This prospectus is not an offer to sell or a solicitation of an offer to buy securities in any circumstances in which the offer or solicitation is unlawful. You should not interpret the delivery of this prospectus, or any sale of securities, as an indication that there has been no change in our affairs since the date of this prospectus. You should also be aware that information in this prospectus may change after this date.

Additionally, we may suspend the holder's use of the prospectus for a reasonable period not to exceed 30 consecutive days, or an aggregate of 90 days in any 365 day period, if we, in our reasonable judgment, believe we may possess material non-public information the disclosure of which would have a material adverse effect on us and our subsidiaries taken as a whole; provided, however, that these limits do not apply if our board of directors determines in its good faith judgment, that there is a reasonable possibility that a sale of the notes pursuant to the prospectus would result in a violation of the Securities Act. Each holder, by its acceptance of a new note, agrees to hold any communication by us regarding suspension of the holder's use of the prospectus in confidence. This offering is subject to withdrawal or cancellation without notice.

When we use the terms we, us, our, or the Company in this prospectus, we mean Richardson Electronics, Ltd. and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise. When we use the term holders we mean the holders of our 7/4% Convertible Senior Subordinated Notes due December 15, 2011 offered for sale from time to time pursuant to this prospectus.

References in this prospectus to our common stock mean our common stock, \$.05 par value per share; references to our Class B common stock mean our Class B common stock, \$.05 par value per share; references to the notes mean our 7/4% Convertible Senior Subordinated Notes due 2011; references to the 7/4% debentures mean our 7/4% Convertible Subordinated Debentures due December 15, 2006; references to the

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8/4% debentures mean our 8/4% Convertible Senior Subordinated Debentures due June 15, 2006; references to the 8% notes mean our 8% Convertible Senior Subordinated Notes due June 15, 2011, and references to the credit agreement mean our amended and restated revolving credit agreement due October 2009 and dated October 29, 2004.

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**PROSPECTUS SUMMARY**

*This summary highlights selected information from this prospectus and may not contain all of the information that is important to you. You should read carefully the entire prospectus, including the consolidated financial statements and related notes and other financial data, before making an investment decision.*

**Our Company**

We are a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, security, and display systems markets. We are committed to a strategy of providing specialized technical expertise and value-added products, which we refer to as engineered solutions, in response to our customers' needs. These engineered solutions consist of:

products which we manufacture or modify;

products which are manufactured to our specifications by independent manufacturers under our own private labels; and

value we add through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for our customers' end products. We define design-in support as modification of components or identification of lower-cost product alternatives or complementary products.

Our products include RF and microwave components, power semiconductors, electron tubes, microwave generators, data display monitors, and electronic security products and systems. These products are used to control, switch or amplify electrical power or signals, or as display, recording or alarm devices in a variety of industrial, communication, and security applications.

Our broad array of technical services and products supports both our customers and vendors.

**Our Strategic Business Units**

We serve our customers through four strategic business units, each of which is focused on different end markets with distinct product and application needs. Our four strategic business units are:

RF, Wireless & Power Division (formerly RF & Wireless Communications Group);

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Electron Device Group (formerly Industrial Power Group);

Security Systems Division/Burtek Systems; and

Display Systems Group.

Each strategic business unit has dedicated marketing, sales, product management and purchasing functions to better serve its targeted markets. The strategic business units operate globally, serving North America, Europe, Asia/Pacific, and Latin America.

During the second quarter of fiscal 2006, we implemented a reorganization plan encompassing our RF & Wireless Communications Group and Industrial Power Group business units. Effective for the second quarter of fiscal 2006, the Industrial Power Group has been designated as the Electron Device Group and the RF & Wireless Communications Group has been designated as RF, Wireless & Power Division. The reorganization was implemented to increase efficiencies by integrating the Industrial Power Group's power conversion sales and product management into the RF & Wireless Communication Group's larger sales resources. In addition, we



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believe that the Electron Device Group will benefit from an increased focus on the high-margin tube business with a simplified global sales and product management structure to work more effectively with customers and vendors.

During the first quarter of fiscal 2007, we changed the name of our Security Systems Division (SSD) to Burtek Systems (SSD/Burtek) to take advantage of Burtek's positive brand recognition within the sound and security industry.

*RF, Wireless & Power Division, formerly RF & Wireless Communications Group*

Our RF, Wireless & Power Division serves the global RF and wireless communications market, including infrastructure and wireless networks, as well as the fiber optics and industrial power conversion market. Our team of RF and wireless engineers assists customers in designing circuits, selecting cost effective components, planning reliable and timely supply, prototype testing, and assembly. The group offers our customers and vendors complete engineering and technical support from the design-in of RF, wireless and power components to the development of engineered solutions for their system requirements.

We expect continued growth in wireless applications as the demand for many types of wireless communication increases worldwide. We believe wireless networking and infrastructure products for a number of niche applications will require engineered solutions using the latest RF technology and electronic components, including:

*Wireless Networks* - Wireless technologies used for short range interconnection, both within the home or office or last mile solutions from a neighborhood to the home.

*Wireless Infrastructure* - Equipment required to support the transmission of RF signals.

*Power Conversion* - High power applications such as power suppliers, welding, motor controls and converting AC/DC and DC/AC.

In addition to voice communication, we believe the rising demand for high-speed data transmission will result in major investments in both system upgrades and new systems to handle broader bandwidth.

*Electron Device Group, formerly Industrial Power Group*

Our Electron Device Group provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries. Our team of engineers designs solutions for applications such as industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. We build on our expertise in high power, high frequency vacuum devices to provide engineered solutions to fit our customers' specifications using what we believe are the most competitive components from industry-leading vendors.

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This group serves the industrial market's need for both vacuum tube and semiconductor manufacturing equipment technologies. We provide replacement products for systems using electron tubes as well as design and assembly services for new systems employing semiconductor manufacturing equipment. Our customers' demand for higher power and shorter processing times increases the need for tube-based systems.

### *Security Systems Division/Burtek Systems*

Our Security Systems Division/Burtek Systems is a global provider of closed circuit television, fire, burglary, access control, sound, and communication products and accessories for the residential, commercial, and government markets. We specialize in closed circuit television design-in support, offering extensive expertise with applications requiring digital technology. Our products are primarily used for security and access control purposes but are also utilized in industrial applications, mobile video, and traffic management.

The electronic security industry is rapidly transitioning from analog to digital imaging technology which is driving the convergence between security and IT. We are positioned to take advantage of this transition

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through our array of innovative products and solutions marketed under our own private label brands *National Electronics*, *Capture*<sup>®</sup>, *AudioTrak*<sup>®</sup>, and *Elite National Electronics*<sup>®</sup>. We also expect to gain additional market share by marketing ourselves as a value-added service provider to both our vendor and dealer partners. We continue to invest in people and tools that enable us to offer superior technical support in the most cost effective manner, particularly in the area of network convergence.

### *Display Systems Group*

Our Display Systems Group is a global provider of integrated display products and systems to the public information, financial, point-of-sale, and medical imaging markets. The group works with leading hardware vendors to offer the highest quality liquid crystal display, plasma, cathode ray tube, and customized display monitors. Our engineers design custom display solutions that include touch screens, protective panels, custom enclosures, specialized finishes, application specific software, and privately branded products.

The medical imaging market is transitioning from film-based technology to digital technology. Our medical imaging hardware partnership program allows us to deliver integrated hardware and software solutions for this growing market by combining our hardware expertise in medical imaging engineered solutions with our software partners' expertise in picture archiving and communications systems. Through such collaborative arrangements, we are able to provide integrated workstation imaging systems to the end user.

Our legacy business of supplying replacement cathode ray tubes continues to be an important market. We believe we are successful in supplying replacement cathode ray tubes because of our extensive cross-reference capability. This database, coupled with custom mounting hardware installed by us, enables us to provide replacement tubes for more than 200,000 models.

We have long-standing relationships with key manufacturers including 3M, Clinton Electronics, HP, IBM, Intel, LG, NEC Displays, Philips-FIMI, Planar Systems, Samsung and Siemens Displays. We believe these relationships and our private label brands allow us to maintain a well-balanced and technologically advanced line of products.

### **Business Strategies**

We are pursuing a number of strategies designed to enhance our business and, in particular, to increase sales of engineered solutions. Our strategies are to:

*Capitalize on Engineering and Manufacturing Expertise.* We believe that our success is largely attributable to our core engineering and manufacturing competency and skill in identifying cost-competitive solutions for our customers, and we believe that these factors will be significant to our future success. Historically, our primary business was the distribution and manufacture of electron tubes and we continue to be a major supplier of these products. This business enabled us to develop manufacturing and design engineering capabilities. Today, we use this expertise to identify engineered solutions for customers' applications not only in electron tube technology but also in new and growing end markets and product applications. We work closely with our customers' engineering departments that allow us to identify engineered solutions for a broad range of applications. We believe our customers use our engineering and manufacturing expertise as well as our in-depth knowledge of the components best suited to deliver a solution that meets their performance needs cost-effectively.

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*Target Selected Niche Markets.* We focus on selected niche markets that demand a high level of specialized technical service, where price is not the primary competitive factor. These niche markets include wireless infrastructure, high power/high frequency power conversion, custom display, and digital imaging. In most cases, we do not compete against pure commodity distributors. We often function as an extension of our customers' and vendors' engineering teams. Frequently, our customers use our design and engineering expertise to provide a

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product solution that is not readily available from a traditional distributor. By utilizing our expertise, our customers and vendors can focus their engineering resources on more critical core design and development issues.

*Focus on Growth Markets.* We are focused on markets we believe have high growth potential and which can benefit from our engineering and manufacturing expertise and from our strong vendor relationships. These markets are characterized by substantial end-market growth and rapid technological change. For example, the continuing demand for wireless communications is driving wireless application growth. Power conversion demand continues to grow due to increasing system complexity and the need for intelligent, efficient power management. We also see growth opportunities as security systems transition from analog to digital video recording and medical display systems transition from film to digital imaging.

*Leverage Our Existing Customer Base.* An important part of our growth is derived from offering new products to our existing customer base. We support the migration of our customers from electron tubes to newer solid-state technologies. Sales of products other than electron tubes represented approximately 84% of our sales in fiscal 2006 compared to 76% in fiscal 2000. In addition, our salespeople increased sales by selling products from all strategic business units to customers who currently may only purchase from one strategic business unit and by selling engineered solutions to customers who currently may only purchase standard components.

## **Growth and Profitability Strategies**

Although we have reported net losses of approximately \$12.9 million in fiscal 2002, \$26.7 million in fiscal 2003, \$16.0 million in fiscal 2005, and \$2.6 million in fiscal 2006, our long-range growth plan is centered around three distinct strategies by which we are seeking to maximize our overall profitability:

*Focus on Internal Growth.* We believe that, in most circumstances, internal growth provides the best means of expanding our business, both on a geographic and product line basis. We believe there is increased outsourcing of engineering as companies focus on their own core competencies, which we believe contributed to the increased demand for our engineered solutions. As technologies change, we plan to continue to capitalize on our customers' need for design engineering. In fiscal 2006, we made sales to approximately 34,000 customers. We have developed internal systems to capture forecasted product demand by potential design opportunity. This allows us to anticipate our customers' future requirements and identify new product opportunities. In addition, we share these future requirements with our manufacturing suppliers to help them predict near and long-term demand, technology trends, and product life cycles. Expansion of our product offerings is an ongoing program. In particular, the following areas have generated significant sales increases in recent years: RF amplifiers; interconnect and passive devices; silicon controlled rectifiers; custom and medical monitors; and digital closed circuit television security systems.

*Reduce Operating Costs Through Continuous Operational Improvements.* We constantly strive to reduce costs in our business through initiatives designed to improve our business processes. We continue to embark on programs to improve operating efficiencies and asset utilization, with an emphasis on inventory control. Our incentive programs were revised in fiscal 2004 to heighten our managers' commitment to these objectives. Since fiscal 2004, our strategic business units' goals are based on return on assets. In an effort to reduce our global operating costs related to logistics, selling, general, and administrative expenses and to better align our operating and tax structure on a global basis, we have now begun to implement a global restructuring plan. This plan is intended to reduce corporate and administrative expense, decrease the number of warehouses, and streamline the entire organization. During fiscal 2007, we will be implementing a more tax-effective supply chain structure for Europe and Asia/Pacific, restructuring our Latin American operations, and reducing the total workforce which includes eliminating and restructuring layers of management. Additional programs are ongoing, including a significant investment in enterprise resource planning software during fiscal 2007.



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*Grow Through Acquisitions.* We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 37 companies or significant product lines and continue to evaluate acquisition opportunities on an ongoing basis. We seek acquisitions that provide product line growth opportunities by permitting us to leverage our existing customer base, expand the geographic coverage for our existing product offerings, or add incremental engineering resources/expertise. Our most significant acquisitions over the past five years include:

Sangus Holdings AB (RF and microwave applications now part of our RF, Wireless & Power Division) in fiscal 2002;

Evergreen Trading Company (power conversion now part of our Electron Device Group) in fiscal 2005;

A.C.T. Kern GmbH & Co. KG ( Kern ) (display technology now part of Display Systems Group) in fiscal 2006; and

Image Systems Corporation (display technology supplier now part of Display Systems Group) in fiscal 2006.

**Recent Developments**

In August 2006, we entered into two separate agreements with certain holders of our 8% notes to purchase \$14.0 million of the 8% notes. As the 8% notes are subordinate to our existing credit agreement, we received a waiver from our lending group to permit the purchases. The purchases will be financed through additional borrowings under our credit agreement. In the first quarter of fiscal 2007, we recorded costs associated with the retirement of long-term debt of \$2.5 million in connection with the purchases, which included the write-off of previously capitalized deferred financing costs of \$0.6 million. On September 8, 2006, we purchased \$6.0 million of the \$14.0 million of the 8% notes. We expect to purchase the remaining \$8.0 million of the \$14.0 million of the 8% notes in December 2006.

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**The Offering**

*The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of the Notes section of this prospectus contains a more detailed description of the terms and conditions of the notes.*

Issuer	Richardson Electronics, Ltd.
Securities Offered	Up to \$44,683,000 aggregate principal amount of 7 <sup>3</sup> / <sub>4</sub> % Convertible Senior Subordinated Notes due 2011.
Interest	We will pay interest at 7 <sup>3</sup> / <sub>4</sub> % per year. Interest on the notes will accrue from February 15, 2005 or from the most recent date to which interest has been paid or duly provided for and will be payable semi-annually in arrears on June 15 and December 15 of each year, beginning on June 15, 2005. Interest will be computed on the basis of a 360 day year comprised of twelve 30 day months.
Maturity Date	December 15, 2011.
Conversion	The notes are convertible at the holders' option at any time prior to maturity into shares of our common stock, initially at a conversion price of \$18.00 per share, subject to adjustment upon certain events.
Auto-Conversion	We may elect to automatically convert the notes at any time on or after December 19, 2006 and prior to maturity if the last reported sale price of the common stock has been at least 125% of the conversion price for at least 20 trading days during any 30 day trading period ending within five trading days prior to the date of the automatic conversion notice, provided that (x) this registration statement is effective and available for use from the date we notify holders of the automatic conversion through and including the earlier of the date of the automatic conversion or the last date on which the registration statement registering the resale of such common stock is required to be kept effective under the terms of the Registration Rights Agreement, or (y) the common stock issuable upon conversion may be sold pursuant to Rule 144 under the Securities Act.
Adjustments to the Conversion Price	The conversion price of the notes will be subject to adjustment under certain circumstances, including the payment of dividends on our common stock in cash in excess of \$0.16 per share per year or in additional shares of common stock or other capital stock.
Optional Redemption	We may redeem some or all of the notes on or after December 19, 2006 and prior to December 19, 2007, at 100% of the principal amount, plus accrued and unpaid interest, to, but excluding, the applicable redemption date if the last reported sale price of the common stock has been at least 125% of the conversion price for at least 20 trading days during any 30 day trading period ending on the date of mailing the redemption notice. We may redeem some or all of



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the notes at any time on or after December 19, 2007 at 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date.

Repurchase at Holder's Option upon Certain Events	Upon a change of control, as defined in Description of the Notes Repurchase at Option of Holder, holders may require us to repurchase their notes in cash at a price equal to 101% of the principal amount plus accrued and unpaid interest to, but excluding, the applicable repurchase date. We may elect to pay the repurchase price in cash, shares of our common stock or any combination of cash and shares of our common stock.
Ranking	The notes are unsecured senior subordinated obligations and are subordinated in right of payment to any existing and future senior indebtedness, which was \$68,460,891 as of September 2, 2006, and structurally subordinated to the indebtedness and other liabilities of our subsidiaries, which was \$23,513,770 as of September 2, 2006.
Trading	Currently, there is no public market for the notes, and we cannot assure you that any such market will develop. The notes will not be listed on any securities exchange or included in any automated quotation system. Our common stock is traded on The NASDAQ Global Market under the symbol RELL .
Sinking Fund	None.
Use of Proceeds	The net proceeds from the sale of the notes or the shares of common stock covered by this prospectus will be received by the selling holders. We will not receive any of the proceeds from any sale by any selling holder of the notes or the shares of common stock covered by this prospectus.
Book-Entry Form	The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, the Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the securities are shown on, and transfers are effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of the Notes Book-Entry Securities.
Risk Factors	An investment in the notes involves a high degree of risk. See Risk Factors beginning on page 11 for a discussion of certain factors that you should consider when evaluating an investment in the notes and the underlying common stock.

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The following table contains summary selected consolidated financial information as of and for the fiscal years ended May 29, 2004, May 28, 2005, and June 3, 2006 and as of and for the three months ended September 3, 2005 and September 2, 2006. The selected consolidated financial information as of May 28, 2005 and June 3, 2006 and for the fiscal years ended May 29, 2004, May 28, 2005, and June 3, 2006, are derived from our audited financial statements contained elsewhere in this prospectus. The selected consolidated financial data as of and for the three months ended September 3, 2005 and September 2, 2006 are derived from our unaudited financial statements contained elsewhere in this prospectus and, in our opinion, reflect all adjustments, which are normal and recurring adjustments, necessary for a fair presentation. Our results of operations for the three months ended September 2, 2006 may not be indicative of the results that may be expected for the full year. The summary selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes to those consolidated financial statements contained elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected in the future.

	Fiscal Year Ended <sup>(1)</sup>			Three Months Ended	
	May 29, 2004 <sup>(2)</sup>	May 28, 2005 <sup>(3)</sup>	June 3, 2006	September 3, 2005	September 2, 2006
	(In thousands, except per share amounts)				
				(Unaudited)	(Unaudited)
<b>Statement of Operations Data:</b>					
Net sales	\$ 519,823	\$ 578,724	\$ 637,940	\$ 158,145	\$ 165,755
Cost of sales	393,101	442,730	482,171	119,613	124,436
Gross profit	126,722	135,994	155,769	38,532	41,319
Selling, general and administrative expenses <sup>(4)(5)</sup>	107,968	129,747	139,640	32,981	35,379
(Gain) loss on disposal of assets <sup>(6)</sup>	579	(9,918)	3	(140)	(19)
Other expense, net <sup>(7)</sup>	10,258	7,582	10,550	2,076	5,874
Income before income taxes	7,917	8,583	5,576	3,615	85
Income tax provision	2,385	24,600	8,218	1,795	1,184
Net income (loss)	\$ 5,532	\$ (16,017)	\$ (2,642)	\$ 1,820	\$ (1,099)
<b>Net income (loss) per share basic</b>					
Common stock	\$ 0.40	\$ (0.96)	\$ (0.15)	\$ 0.11	\$ (0.06)
Class B common stock	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
<b>Net income (loss) per share diluted</b>					
Common stock	\$ 0.38	\$ (0.96)	\$ (0.15)	\$ 0.10	\$ (0.06)
Class B common stock	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
<b>Weighted-average number of common shares outstanding:</b>					
Common stock basic	10,872	13,822	14,315	14,264	14,400
Class B common stock basic	3,168	3,120	3,093	3,120	3,093
Common stock diluted	14,418	13,822	14,315	17,488	14,400

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Class B common stock diluted	3,168	3,120	3,093	3,120	3,093
Dividends per common share	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.040	\$ 0.040
Dividends per Class B common share <sup>(8)</sup>	\$ 0.144	\$ 0.144	\$ 0.144	\$ 0.036	\$ 0.036
<b>Other Data:</b>					
Interest expense	\$ 10,257	\$ 8,947	\$ 9,809	\$ 2,277	\$ 2,983
Investment income	227	388	411	108	77
Depreciation and amortization	4,989	5,298	6,240	1,516	1,548
Capital expenditures	5,468	6,975	6,211	1,070	859

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	As of <sup>(1)</sup>			As of	
	May 29, 2004	May 28, 2005	June 3, 2006	September 2, 2005	September 3, 2006
	(In thousands, unless otherwise stated)				
				(Unaudited)	(Unaudited)
<b>Balance Sheet Data</b>					
Cash	\$ 16,572	\$ 24,301	\$ 17,010	\$ 19,706	\$ 18,202
Working capital	172,593	153,840	158,231	150,832	168,795
Property, plant and equipment, net	30,534	31,712	32,357	31,455	31,773
Total assets	281,035	283,940	309,299	296,443	316,428
Current maturities of long-term debt	4,027	22,305	14,016	23,451	14,016
Long-term debt	133,813	98,028	112,792	99,046	124,128
Stockholders' equity	86,181	97,396	98,240	100,499	96,765

- (1) We account for our results of operations on a 52/53 week year, ending the fiscal year on the Saturday nearest May 31.
- (2) We recorded incremental tax provisions of \$2.5 million in fiscal 2004 to increase the valuation allowance related to our deferred tax assets outside the United States.
- (3) In the third quarter of fiscal 2005, we recorded a \$2.2 million restructuring charge to selling, general and administrative expenses as we terminated over 60 employees. In addition, we recorded incremental tax provisions of \$16.7 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$15.9 million) and outside the United States (\$0.8 million).
- (4) During the fourth quarter of fiscal 2006, we recorded employee severance costs of \$2.7 million for certain employees whose termination became probable and estimable.
- (5) During the first quarter of fiscal 2007, we recorded restructuring charges of \$0.9 million in selling, general and administrative expenses as we implemented the global restructuring plan.
- (6) In the fourth quarter of fiscal 2005, we completed the sale of approximately 205 acres of undeveloped real estate adjoining our headquarters in La Fox, Illinois, resulting in a gain of \$9.9 million before taxes.
- (7) During the first quarter of fiscal 2007, we recorded retirement of long-term debt expenses of \$2.5 million in other, net expenses as we entered into two separate agreements in August 2006 with certain holders of our 8% notes to purchase \$14.0 million of the 8% notes.
- (8) The dividend per Class B common share was 90% of the dividend per common share.

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The following table shows the ratio of our earnings to fixed charges for the periods indicated. We have computed these by dividing earnings available for fixed charges (income (loss) before cumulative effect of accounting change and income taxes plus fixed charges) by fixed charges (interest expense plus that portion of rental expenses deemed to represent interest).

	For the Fiscal Year Ended <sup>(1)</sup>				Three Months Ended		
	June 1, 2002 <sup>(2)</sup>	May 31, 2003 <sup>(3)</sup>	May 29, 2004	May 28, 2005 <sup>(4)</sup>	June 3, 2006 <sup>(5)</sup>	September 3, 2005	September 2, 2006 <sup>(6)</sup>
<b>Fixed charges:</b>							
Interest expense	\$ 12,386	\$ 10,352	\$ 10,257	\$ 8,947	\$ 9,809	\$ 2,277	\$ 2,983
Estimate of the interest within rental expense	1,101	1,222	1,155	1,389	1,549	377	406
<b>Total fixed charges</b>	<b>13,487</b>	<b>11,574</b>	<b>11,412</b>	<b>10,336</b>	<b>11,358</b>	<b>2,654</b>	<b>3,389</b>
<b>Earnings:</b>							
Income (loss) before cumulative effect of accounting change	\$ (12,887)	\$ (8,882)	\$ 5,532	\$ (16,017)	\$ (2,642)	\$ 1,820	\$ (1,099)
Add fixed charges	13,487	11,574	11,412	10,336	11,358	2,654	3,389
<b>Total</b>	<b>\$ 600</b>	<b>\$ 2,692</b>	<b>\$ 16,944</b>	<b>\$ (5,681)</b>	<b>\$ 8,716</b>	<b>\$ 4,474</b>	<b>\$ 2,290</b>
<b>Ratio of earnings to fixed charges</b>	<sup>(7)</sup>	<sup>(7)</sup>	1.5	<sup>(7)</sup>	<sup>(7)</sup>	1.7	<sup>(7)</sup>
<b>Dollar amount of the deficiency</b>	<b>\$ 12,887</b>	<b>\$ 8,882</b>	<b>\$</b>	<b>\$ 16,017</b>	<b>\$ 2,642</b>	<b>\$</b>	<b>\$ 1,099</b>

- (1) We account for our results of operations on a 52/53 week year, ending the fiscal year on the Saturday nearest May 31.
- (2) In the third quarter of fiscal 2002, we recorded a \$4.6 million loss (\$2.9 million, net of tax) related to the disposition of our medical glassware business. In the fourth quarter of fiscal 2002, we recorded a \$15.3 million charge (\$9.8 million net of tax) primarily related to inventory obsolescence.
- (3) In the fourth quarter of fiscal 2003, we recorded a \$16.1 million charge (\$10.3 million net of tax) principally related to inventory write-downs and restructuring charges, including a \$1.7 million restructuring charge to selling, general and administrative expenses as we eliminated over 70 positions or approximately 6% of our workforce. In addition, we recorded incremental tax provisions of \$1.6 million to establish a valuation allowance related to our deferred tax assets outside the United States.
- (4) In the third quarter of fiscal 2005, we recorded a \$2.2 million restructuring charge to selling, general and administrative expenses as we terminated over 60 employees. In addition, we recorded incremental tax provisions of \$16.7 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$15.1 million) and outside the United States (\$0.8 million).
- (5) During the fourth quarter of fiscal 2006, we recorded employee severance costs of \$2.7 million for certain employees whose termination became probable and estimable.
- (6) During the first quarter of fiscal 2007, we recorded retirement of long-term debt expenses of \$2.5 million in other, net expenses as we entered into two separate agreements in August 2006 with certain holders of our 8% notes to purchase \$14.0 million of the 8% notes. In addition, during the first quarter of fiscal 2007, we recorded restructuring charges of \$0.9 million in selling, general and administrative expenses as we implemented the global restructuring plan.
- (7) Due to losses in fiscal 2002, fiscal 2003, fiscal 2005, and fiscal 2006, and the first quarter of fiscal 2007, earnings were insufficient to cover fixed charges in the amounts indicated.

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**RISK FACTORS**

*You should carefully consider each of the following risks and all of the other information included in this prospectus before deciding to invest in the notes offered by this prospectus. Some of the risks relate to the notes. Some of the risks relate principally to our business in general and the industry in which we operate. Other risks relate principally to the securities market and ownership of our common stock issuable upon conversion of the notes.*

*Further, these risks are not exhaustive. Other sections of this prospectus may include additional factors, which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor or combination of factors, may cause future actual results to differ materially from those contained in any historical or forward-looking statements.*

**Risks Related to Our Business**

**We have had significant operating and net losses in the past and may have future losses.**

We reported net losses of approximately \$12.9 million in fiscal 2002, \$26.7 million in fiscal 2003, \$16.0 million in fiscal 2005, and \$2.6 million in fiscal 2006 and we cannot assure that we will not experience operating losses and net losses in the future. We may continue to lose money if our sales do not continue to increase or our expenses are not reduced. We cannot predict the extent to which sales will continue to increase across our businesses or how quickly our customers will consume their inventories of our products.

**We have exposure to economic downturns and operate in cyclical markets.**

As a supplier of electronic components and services to a variety of industries, we can be adversely affected by general economic downturns. In particular, demand for the products and services of our RF, Wireless & Power Division is dependent upon capital spending levels in the telecommunications industry and demand for products and services of our Electron Device Group is dependent upon capital spending levels in the manufacturing industry, including steel, automotive, textiles, plastics, semiconductors, and broadcast, as well as the transportation industry. Many of our customers delay capital projects during economic downturns. Accordingly, our operating results for any particular period are not necessarily indicative of the operating results for any future period. The markets served by our businesses have historically experienced downturns in demand that could harm our operating results. Future economic downturns could be triggered by a variety of causes, including outbreaks of hostilities, terrorist actions, or epidemics in the United States or abroad.

**Because we derive a significant portion of our revenue by distributing products designed and manufactured by third parties, we may be unable to anticipate changes in the marketplace and, as a result, could lose market share.**

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Our business is driven primarily by customers' needs and demands for new products and/or enhanced performance, and by the products developed and manufactured by third parties. Because we distribute products developed and manufactured by third parties, our business would be adversely affected if our suppliers fail to anticipate which products or technologies will gain market acceptance or if we cannot sell these products at competitive prices. We cannot be certain that our suppliers will permit us to distribute their newly developed products, or that such products will meet our customers' needs and demands. Additionally, because some of our principal competitors design and manufacture new technology, those competitors may have a competitive advantage over us. To successfully compete, we must maintain an efficient cost structure, an effective sales and marketing team, and offer additional services that distinguish us from our competitors. Failure to execute these strategies successfully could harm our results of operations.

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**We face intense competition in the markets we serve and, if we do not compete effectively, we could significantly harm our operating results.**

We face substantial competition in our markets. We face competition from hundreds of electronic component distributors of various sizes, locations, and market focuses as well as original equipment manufacturers, in each case for new products and replacement parts. Some of our competitors have significantly greater resources and broader name recognition than us. As a result, these competitors may be better able to withstand changing conditions within our markets and throughout the economy as a whole. In addition, new competitors could enter our markets.

We believe that engineering capability, vendor representation, and product diversity create segmentation among distributors. Our ability to compete successfully will depend on our ability to provide engineered solutions, maintain inventory availability and quality, and provide reliable delivery at competitive prices.

To the extent we do not keep pace with technological advances or fail to timely respond to changes in competitive factors in our industry, we could lose market share or experience a decline in our revenue and net income. In addition, gross margins in the businesses in which we compete have declined in recent years due to competitive pressures and may continue to decline.

**If we do not continue to reduce our costs, we may not be able to compete effectively in our markets.**

The success of our business depends, in part, on our continuous reduction of costs. The electronic component industries have historically experienced price erosion and will likely continue to experience such price erosion. If we are not able to reduce our costs sufficiently to offset future price erosion, our operating results will be adversely affected. We have recently engaged in various cost-cutting and other initiatives intended to reduce costs and increase productivity. In fiscal 2005, we recorded a \$2.2 million restructuring charge as we eliminated over 60 positions or approximately 5% of our workforce. In an effort to reduce our global operating costs related to logistics, selling, general, and administrative expenses and to better align our operating and tax structure on a global basis, we have now begun to implement a global restructuring plan. This plan is intended to reduce corporate and administrative expense, decrease the number of warehouses, and streamline the entire organization. During fiscal 2007, we will be implementing a more tax-effective supply chain structure for Europe and Asia/Pacific, restructuring our Latin American operations, and reducing the total workforce which includes eliminating and restructuring layers of management.

The total restructuring and severance costs to implement the plan are estimated to be \$6.0 million, of which \$2.7 million of severance costs were recorded in the fourth quarter of fiscal 2006 and \$0.9 million of severance costs were recorded in the first quarter of fiscal 2007. The balance will be incurred in fiscal 2007 as the plan is implemented. We expect to realize the full impact of the cost savings from the restructuring plan in fiscal 2008.

We cannot ensure that we will not incur further charges for restructuring as we continue to seek cost reduction initiatives. Alternatively, we cannot ensure that we will be able to continue to reduce our costs. If we cannot fully implement our restructuring plan or cannot implement our plan within the expected time period, we may not realize the expected cost savings.



**Because we generally do not have long-term contracts with our vendors, we may experience shortages of products that could harm our business and customer relationships.**

We generally do not have long-term contracts or arrangements with any of our vendors that guarantee product availability. We cannot ensure that our vendors will meet our future requirements for timely delivery of products of sufficient quality or quantity. Any difficulties in the delivery of products could harm our relationships with customers and cause us to lose orders that could result in a material decrease in our revenues. Further, we compete against certain of our vendors and our relationships with those vendors could be harmed as a result of this competition.

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### **Our Electron Device Group is dependent on a limited number of vendors to supply us with essential products.**

Electron tubes and certain other products supplied by our Electron Device Group are currently produced by a relatively small number of manufacturers. Our future success will depend, in large part, on maintaining current vendor relationships and developing new relationships. We believe that vendors supplying products to some of the product lines of our Electron Device Group are consolidating their distribution relationships or exiting the business. The five largest suppliers to the Electron Device Group by percentage of overall Electron Device Group purchases in fiscal 2006 were Communications & Power Industries, Inc., Covimag S.A., New Japan Radio Co. Ltd., Jennings Technology Corp., and Thales Components Corp. These suppliers accounted for approximately 61% of the overall Electron Device Group purchases in fiscal 2006. The loss of one or more of our key vendors and the failure to find new vendors could significantly harm our business and results of operations. We have in the past and may in the future experience difficulties obtaining certain products in a timely manner. The inability of suppliers to provide us with the required quantity or quality of products could significantly harm our business.

### **We maintain a significant investment in inventory and have incurred significant charges for inventory obsolescence and overstock, and may incur similar charges in the future.**

We maintain significant inventories in an effort to ensure that customers have a reliable source of supply. The market for many of our products is characterized by rapid change as a result of the development of new technologies, particularly in the semiconductor markets served by our RF, Wireless & Power Division, evolving industry standards, and frequent new product introductions by some of our customers. We do not have many long-term supply contracts with our customers. Generally, our product sales are made on a purchase-order basis, which permits our customers to reduce or discontinue their purchases. If we fail to anticipate the changing needs of our customers and accurately forecast their requirements, our customers may not continue to place orders with us and we may accumulate significant inventories of products which we will be unable to sell or return to our vendors, or which may decline in value substantially.

In fiscal 2002, we recorded a pre-tax provision for inventory obsolescence and overstock of \$15.3 million, or \$9.8 million net of tax, due to an industry-wide decline in sales, a prolonged recovery period, and changes in our mix of business toward higher technology products, particularly in the telecommunications market. In fiscal 2003, we recorded an additional pre-tax provision of \$13.8 million, or \$8.8 million net of tax, primarily for inventory obsolescence, overstock, and shrinkage, to write-down inventory to net realizable value as we sought to align our inventory and cost structure to then current sales levels amid continued economic slowdown and limited visibility. While we did not incur any material provisions for inventory in fiscal 2004 and 2006, incremental inventory write-down charges of \$0.9 million were recorded during fiscal 2005 related to restructuring actions and certain product lines were discontinued. We cannot ensure that we will not incur such charges in the future.

### **We may not be able to continue to make the acquisitions necessary for us to realize our growth strategy or integrate acquisitions successfully.**

One of our growth strategies is to increase our sales and expand our markets through acquisitions. Since 1980, we have acquired 37 companies or significant product lines and we expect to continue making acquisitions if appropriate opportunities arise in our industry. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, or otherwise complete future acquisitions. Furthermore, we may compete for acquisition and expansion opportunities with companies that have substantially greater resources than us.

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Following acquisitions, the acquired companies may encounter unforeseen operating difficulties and may require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations. If we are unable to successfully identify acquisition candidates, complete acquisitions, and integrate the acquired businesses with our existing businesses, our

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business, results of operations, and financial condition may be materially and adversely affected, and we may not be able to compete effectively within our industry.

**Economic, political, and other risks associated with international sales and operations could adversely affect our business.**

In fiscal 2006, approximately 62.5% of our sales were made outside the U.S. and 32.4% of our purchases of products were from suppliers located outside the U.S. We anticipate that we will continue to expand our international operations to the extent that suitable opportunities become available. Accordingly, our future results of operations could be harmed by a variety of factors which are not present for companies with operations and sales predominantly within the U.S., including:

changes in a specific country's or region's political or economic conditions, particularly in emerging markets, including the possibility of military action or other hostilities and confiscation of property;

increases in trade protection measures and import or export licensing requirements;

changes in tax laws and international tax treaties;

restrictions on our ability to repatriate investments and earnings from foreign operations;

difficulty in staffing and managing widespread operations;

differing labor regulations;

differing levels of protection of intellectual property;

changes in regulatory requirements;

shipping costs and delays; or

difficulties in accounts receivable collection.

If any of these risks materialize, we could face substantial increases in costs, the reduction of profit, and the inability to do business.

**Our success depends on our executive officers and other key personnel.**

Our future success depends to a significant degree on the skills, experience, and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly Edward J. Richardson, our chairman of the board and chief executive officer could significantly harm our business and results of operations.

Our future success will also depend on our ability to attract and retain qualified personnel, including technical and engineering personnel. Competition for such personnel is intense, and we cannot assure that we will be successful in retaining or attracting such persons. The failure to attract and retain qualified personnel could significantly harm our operations.

**Changes in accounting standards regarding stock option plans, which we adopted in the first quarter of our fiscal 2007, could limit the desirability of granting stock options, which could harm our ability to attract and retain employees, and could also negatively impact our results of operations.**

On December 16, 2004, the Financial Accounting Standards Board issued FASB Statement No. 123(R), *Share Based Payment*, which requires all companies to treat the fair value of stock options granted to employees as an expense. As a result of FAS 123(R), beginning in the first quarter of fiscal 2007, we are now required to record a compensation expense equal to the fair value of each stock option granted. This change in accounting standards reduces the attractiveness of granting stock options because of the additional expense associated with

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these grants, which would negatively impact our results of operations. Nevertheless, stock options are an important employee recruitment and retention tool, and we may not be able to attract and retain key personnel if we reduce the scope of our employee stock option program. Accordingly, as a result of the requirement to expense stock option grants, our future results of operations would be negatively impacted, as would our ability to use stock options as an employee recruitment and retention tool.

### **We have significant debt, which could limit our financial resources and ability to compete and may make us more vulnerable to adverse economic events.**

At September 2, 2006, our total debt was approximately \$138.1 million, including our outstanding convertible notes. We have incurred and will likely continue to incur indebtedness to fund potential future acquisitions, for strategic initiatives, to purchase inventory, and for general corporate purposes. Although we believe that the cash flow generated by our continuing operations, supplemented as necessary with funds available under credit arrangements is sufficient to meet our repayment obligations for the fiscal year ended June 2, 2007, we cannot ensure that this will be the case. Our incurrence of additional indebtedness could have important consequences. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, engineering efforts, and other general corporate purposes, as well as to pay dividends;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage relative to our competitors who have less debt; or

limit, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds which could affect our ability to make future acquisitions, among other things.

### **Our ability to service our debt and meet our other obligations depends on a number of factors beyond our control.**

At September 2, 2006, our total debt was approximately \$138.1 million, resulting in a debt-to-equity ratio of 143%, and primarily consisted of:

\$44.7 million aggregate principal amount of our notes, which bear interest at a rate of 7<sup>3</sup>/<sub>4</sub>% per year payable on June 15 and December 15 and mature on December 15, 2011;

\$25.0 million aggregate principal amount of our 8% notes, which bear interest at a rate of 8% per year payable on June 15 and December 15 and mature on June 15, 2011, subject to an additional 1% as a result of failing to register the 8% notes by March 21, 2006 (we purchased \$6.0 million of the 8% notes on September 8, 2006 and have agreed to purchase an additional \$8.0 million of the 8% notes in December 2006); and

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\$68.4 million principal amount of indebtedness under our credit agreement, which expires on October 29, 2009, bears interest at London Interbank Offered Rate (LIBOR), plus a margin varying with certain financial performance criteria. The interest rate was 7.25% at September 2, 2006.

The debt-to-equity ratio has been calculated based on our balance sheet dated September 2, 2006.

Our ability to service our debt and meet our other obligations as they come due is dependent on our future financial and operating performance. This performance is subject to various factors, including factors beyond our control such as changes in global and regional economic conditions, changes in our industry or the end markets for our products, changes in interest or currency exchange rates, inflation in raw materials, energy and other costs.

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If our cash flow and capital resources are insufficient to enable us to service our debt and meet these obligations as they become due, we could be forced to:

reduce or delay capital expenditures;

sell assets or businesses;

limit or discontinue, temporarily or permanently, business plans or operations;

obtain additional debt or equity financing; or

restructure or refinance debt.

We cannot ensure the timing of these actions or the amount of proceeds that could be realized from them. Accordingly, we cannot ensure that we will be able to meet our debt service and other obligations as they become due or otherwise.

### **Our credit agreement and the indentures for our outstanding notes impose restrictions with respect to various business matters.**

Our credit agreement contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make other payments in respect of our shares of common stock and Class B common stock, to engage in transactions with affiliates, to make certain payments and investments, to merge or consolidate with another entity, and to repay indebtedness junior to indebtedness under the credit agreement. The credit agreement also contains a number of financial covenants that require us to meet certain financial ratios and tests relating to, among other things, tangible net worth, a borrowing base, senior funded debt to cash flow, and annual debt service coverage. In addition, the indentures for our outstanding notes contain covenants that limit, among other things, our ability to incur additional indebtedness. If we fail to comply with the obligations in the credit agreement and indentures, it could result in an event of default under those agreements. If an event of default occurs and is not cured or waived, it could result in acceleration of the indebtedness under those agreements, any of which could significantly harm our business and financial condition.

### **We were not in compliance with certain financial covenants of our credit agreement for the quarters ended March 4, 2006, September 3, 2005, and May 28, 2005, and may not be able to comply with these financial covenants in the future.**

For the quarter ended March 4, 2006, we were not in compliance with credit agreement covenants with respect to the leverage ratio, fixed charge coverage ratio, and tangible net worth covenants. On August 4, 2006, we received a waiver from our lending group for the default and executed an amendment to the credit agreement. In addition, the amendment also (i) permitted the purchase of \$14.0 million of the 8% notes; (ii) adjusted the minimum required fixed charge coverage ratio for the first quarter of fiscal 2007; (iii) adjusted the minimum tangible net worth requirement; (iv) permitted certain transactions contemplated by us; (v) eliminated our Sweden Facility; (vi) reduced our Canada Facility by approximately \$5.4 million; (vii) changed the definition of Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for covenant purposes; and (viii) provided that we maintain excess availability on the borrowing base of not less than \$10.0 million.



For the quarter ended September 3, 2005, we were not in compliance with credit agreement covenants with respect to the tangible net worth covenant due solely to the additional goodwill recorded as a result of the Kern acquisition. On October 12, 2005, we received a waiver from our lending group for the default and executed an amendment to the credit agreement. The amendment changed the minimum tangible net worth requirement to adjust for the goodwill associated with the Kern acquisition.

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For the quarter ended May 28, 2005, we were not in compliance with our credit agreement covenant with respect to the fixed charge coverage ratio. On August 24, 2005, we received a waiver from our lenders for the default and executed an amendment to the credit agreement. The amendment changed the maximum permitted leverage ratios and the minimum required fixed charge coverage ratios for each of the first three quarters of fiscal 2006 to provide us additional flexibility for these periods.

As more fully described in Note B to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K/A (Amendment No. 2) for the fiscal year ended May 28, 2005, as a result of errors discovered by us, the consolidated financial statements for fiscal 2005, 2004, and 2003 have been amended and restated to correct these errors. As a result, we would not have been in compliance with our tangible net worth covenant for the third quarter of fiscal 2005 and our leverage ratio and tangible net worth covenants as of the end of fiscal 2005. On August 4, 2006, we received a waiver from our lending group for defaults arising from the restatement and executed an amendment to the credit agreement.

In the event that we fail to meet a financial covenant in the future, we may not be able to obtain the necessary waivers or amendments to remain in compliance with the credit agreement and our lenders may declare a default and cause all of our outstanding indebtedness under the credit agreement to become immediately due and payable. If we are unable to repay any borrowings when due, the lenders under the credit agreement could proceed against their collateral, which includes most of the assets we own. In addition, any default under our credit agreement could lead to an acceleration of debt under other debt instruments that contain cross acceleration or cross-default provisions. If the indebtedness under our credit agreement and our other debt instruments is accelerated, we may not have sufficient assets to repay amounts due under our credit agreement or indebtedness under our other debt instruments.

### **We are exposed to foreign currency risk.**

We expect that international sales will continue to represent a significant percentage of our total sales, which expose us to currency exchange rate fluctuations. Since the revenues and expenses of our foreign operations are generally denominated in local currencies, exchange rate fluctuations between local currencies and the U.S. dollar subject us to currency exchange risks with respect to the results of our foreign operations to the extent we are unable to denominate our purchases or sales in U.S. dollars or otherwise shift to our customers or suppliers the risk of currency exchange rate fluctuations. We currently do not engage in any significant currency hedging transactions. Fluctuations in exchange rates may affect the results of our international operations reported in U.S. dollars and the value of such operations net assets reported in U.S. dollars. Additionally, our competitive position may be affected by the relative strength of the currencies in countries where our products are sold. We cannot predict whether foreign currency exchange risks inherent in doing business in foreign countries will have a material adverse effect on our operations and financial results in the future.

### **If we do not maintain effective internal controls over financial reporting, we could be unable to provide timely and reliable financial information.**

As disclosed in our Management's Report on Internal Control over Financial Reporting in Part II, Item 9A, Controls and Procedures of our Form 10-K for the fiscal year ended May 28, 2005, we reported four material weaknesses in its internal control over financial reporting. A material weakness is a deficiency in internal control over financial reporting that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. The identified weaknesses were as follows:

ineffective Company level controls

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inadequate controls associated with the accounting for income taxes

inadequate financial statement preparation and review procedures

inadequate policies and procedures to ensure the appropriate application of Financial Standards Board Statement No. 52, *Foreign Currency Translation*

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During fiscal 2006, we successfully remediated three out of the four material weaknesses we identified as of May 28, 2005. As of June 3, 2006, we continue to have a material weakness in internal controls associated with the accounting for income taxes. There can be no assurance that material deficiencies will not be identified in the future. Any failure to remediate material weaknesses in the future could have a material adverse effect on our business, results of operations, or financial condition. Furthermore, it is uncertain what impact an adverse opinion or a disclaimed opinion regarding internal controls would have upon our stock price or business.

### **Risks Related to Owning Our Notes**

**Your right to receive payment on the notes is unsecured and subordinate to amounts outstanding under our credit agreement and any senior indebtedness we may incur in the future.**

The notes are subordinate to amounts outstanding under our credit agreement. As of September 2, 2006, the aggregate amount of our Senior Indebtedness (as defined in Description of the Notes Subordination ) was \$68,460,891. In addition, the terms of the notes do not limit the amount of additional Senior Indebtedness we can create, incur, assume or guarantee on and after December 19, 2006. Upon any distribution of our assets upon any insolvency, dissolution or reorganization, the payment of principal and interest on our senior indebtedness will have priority over the payment of principal and interest on the notes. There may not be sufficient assets remaining to pay amounts due on any or all of the notes after we have made payment of principal and interest on the senior indebtedness. In addition, the notes are structurally subordinate to any indebtedness of our subsidiaries. Any right of ours to receive assets of any of our subsidiaries upon its insolvency, dissolution or reorganization and the dependant right of holders of our notes to have rights in those assets, will be subject to the prior claim of any creditors of that subsidiary. As of September 2, 2006, our subsidiaries had \$23,513,770 of indebtedness, excluding indebtedness that is also Senior Indebtedness.

**Our 8% notes have more favorable terms than the notes, which may impact the market for the notes.**

On November 21, 2005, we issued \$25 million aggregate principal amount of 8% notes. The 8% notes have more favorable terms than the notes. In addition to the 0.25% higher interest rate, the 8% notes have a lower conversion price than the notes and mature six months prior to the notes. As a result of issuance of the 8% notes, the market for the notes may be adversely affected. In addition, the terms of the notes do not prohibit us from issuing additional debt securities with more favorable terms than the notes. Any such future issuance could further impact the market for the notes.

**Our credit agreement imposes significant operating and financial restrictions that may prevent us from repurchasing the notes upon a change of control.**

Upon a change of control, the indenture for the notes requires us to repurchase all notes tendered for repurchase. We cannot assure you that we will be able to repurchase the notes as required. Our credit agreement imposes significant operating and financial restrictions on us. These restrictions include limitations on our ability to redeem or repurchase outstanding debt that is subordinate to borrowings under the credit agreement. As a result of these restrictions, we may not be able to repurchase our notes without being in default under our credit agreement.

**Your ability to sell the notes may be limited by the absence of an active trading market.**

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The notes were issued in February 2005 in an aggregate principal amount of \$44,683,000 and there is no public market for the notes. We do not presently intend to apply for the listing of the notes on any securities exchange or for inclusion in the automated quotation system of the National Association of Securities Dealers, Inc. An issue of securities with a smaller float may be more volatile in price than a comparable issue of securities with a greater float. Accordingly, we cannot assure you as to:

the depth and liquidity of any trading market for our notes that may develop;

your ability to sell the notes; or

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the price at which you would be able to sell the notes.

If a trading market does develop, the notes could trade at prices that may be higher or lower than the principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar debt securities, our financial performance and our stock price. No one is obligated to make a market in the notes. In addition, any market making activities will be subject to the limits imposed by the Securities Act and the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

### **We may be unable to generate sufficient cash flow from which to make payments on the notes.**

Our ability to pay interest on the notes depends on our ability to generate sufficient cash flow. We cannot assure you that we will be able to generate sufficient cash flow to service the notes and our existing indebtedness. In addition, at maturity, the aggregate principal amount will become due and payable. At maturity, we may not have sufficient funds to pay the aggregate principal amount of the notes then outstanding. If we do not have sufficient funds and cannot arrange for additional financing, we will be unable to pay our obligations under the notes and will default under the indenture. Any default on the notes constitutes a default under the credit agreement, resulting in an acceleration of the repayment obligations for amounts borrowed under that agreement. If an acceleration of the credit agreement repayment obligations occurs, that indebtedness would be repaid prior to any repayment of amounts owed on the notes, see the risk factor above under the heading Your right to receive payment on the notes is unsecured and subordinate to amounts outstanding under our credit agreement and any senior indebtedness we may incur in the future.

### **The notes may not be rated or may receive a rating that is lower than expected.**

We believe that it is unlikely that the notes will be rated. However, if one or more rating agencies rates the notes and assigns the notes a rating lower than the rating expected by investors, or reduces the rating of the notes in the future, the market price of the notes may decline.

### **There are no restrictive covenants in the indenture governing the notes relating to our ability to incur future indebtedness.**

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, incurrence of indebtedness, transactions with affiliates, incurrence of liens, or the issuance or repurchase of securities by us or any of our subsidiaries. We, therefore, may incur additional debt, including secured indebtedness or indebtedness by, or other obligations of, our subsidiaries to which the notes would be structurally subordinate. A higher level of indebtedness increases the risk that we may default on our indebtedness. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our indebtedness or that future working capital, borrowings or equity financing will be available to pay or refinance such indebtedness.

### **Before conversion, holders of the notes will not be entitled to any shareholder rights, but will be subject to all changes affecting our shares.**

If you hold notes, you will not be entitled to any rights with respect to shares of our common stock, including voting rights and rights to receive dividends or distributions. However, the common stock you receive upon conversion of your notes will be subject to all changes affecting our

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common stock. Except for limited cases under the adjustments to the conversion price, you will be entitled only to rights that we may grant with respect to shares of our common stock if and when we deliver shares to you upon your election to convert your notes into shares. For example, if we seek approval from shareholders for a potential merger, or if an amendment is proposed to our articles of incorporation or by-laws that requires shareholder approval, holders of notes will not be entitled to vote on the merger or amendment.

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**Holders of beneficial interests in global notes may be subject to certain limitations, including limitations on their ability to transfer or pledge the notes, due to the global note structure.**

Because transfers and pledges of global notes can be effected only through book entries at DTC, the liquidity of any secondary market for global notes may be reduced to the extent that some investors are unwilling to hold notes in book-entry form in the name of DTC participant. The ability to pledge global notes may be limited due to the lack of a physical certificate. Further, beneficial owners of global notes may, in certain cases, experience delay in the receipt of payments of principal and interest since such payments will be forwarded by the paying agent to DTC who will then forward payment to the respective DTC participants, who will thereafter forward payment directly to beneficial owners of the global notes. In the event of the insolvency of DTC or of a DTC participant in whose name global notes are recorded, the ability of beneficial owners to obtain timely payment and (if the limits of applicable insurance coverage by the Securities Investor Protection Corporation are exceeded, or if such coverage is otherwise unavailable) ultimate payment of principal and interest on global notes may be impaired.

### **Risks Related to Owning Our Common Stock**

**Holders of common stock have fewer voting rights than the holders of our Class B common stock, the principal holder of which is our chairman of the board and chief executive officer, Mr. Richardson.**

The holders of common stock are entitled to only one vote per share, while holders of Class B common stock are entitled to ten votes per share. Mr. Richardson, our chairman of the board and chief executive officer, holds 99.5% of the outstanding Class B common stock as of August 21, 2006. Because of its voting power, the Class B common stock controls 68.2% of our outstanding voting power. Holders of common stock and Class B common stock generally vote together as a single class on all matters except as otherwise required by Delaware law. As a result of their voting power, the holders of Class B common stock can control the outcome of any such stockholder vote. See Description of Our Capital Stock Common Stock and Class B Common Stock.

**We are controlled by Mr. Richardson, and his interests may differ from ours and the interests of our other securityholders.**

Because of Mr. Richardson's voting power, he has the ability to elect our board of directors and to control any merger, consolidation or sale of all or substantially all of our assets. This control could prevent or discourage any unsolicited acquisition of us and consequently could prevent an acquisition favorable to other stockholders. Mr. Richardson may consider not only the short-term and long-term impact of operating decisions on us, but also the impact of such decisions on himself.

**Future sales of shares of our common stock may depress the price of our common stock.**

Our board of directors has the authority, without action or the vote of our stockholders, to issue any or all authorized but unissued shares of our common stock, including securities convertible into or exchangeable for our common stock, and authorized but unissued shares under our stock option and other equity incentive plans. Any issuance of this kind will dilute the ownership percentage of stockholders and may dilute the per share book value of the common stock. At September 2, 2006, we had 14,336,331 authorized but unissued shares of common stock and 1,260,227 shares of treasury stock.



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Further, if certain of our stockholders sell a substantial number of shares of our common stock or investors become concerned that substantial sales might occur, the market price of our common stock could decrease.

At September 2, 2006, we had a total of 7,531,793 shares of common stock reserved for issuance. These reserved shares included 2,492,785 shares reserved for issuance under our existing stock incentive plans, including 1,825,378 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of \$9.23 per share; 131,789 shares reserved for issuance under our employee stock purchase plan;

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and 2,482,389 shares reserved for issuance upon conversion of the notes, which currently have a conversion price of \$18.00 per share. In addition, on October 18, 2005, we approved the issuance of up to 400,000 shares pursuant to the 2006 Stock Option Plan for Non-Employee Directors, and on November 21, 2005, we issued the 8% notes and reserved 2,424,830 shares for issuance upon conversion of the 8% notes, which currently have a conversion price of \$10.31 per share.

**The market price of our common stock has fluctuated significantly and may continue to do so.**

The market price of our common stock may fluctuate significantly due to a variety of factors, some of which are outside of our control. Some of these factors include:

announcements of technological innovations, new products or upgrades to existing products by us or our competitors;

market conditions in the industries served by our RF, Wireless & Power Division, Electronic Device group, Security Systems Division/Burtek Systems, and Display Systems Group such as declines in capital investment in such industries;

technological innovations, new products or upgrades to existing products which cause our inventory to become less marketable or obsolete;

the addition or loss of customers or vendors;

the small size of the public float of our common stock which may cause larger fluctuations in the market price of our common stock;

announcements of operating results that are not aligned with the expectations of investors; and

general stock market trends.

**Limited trading volume of our common stock may contribute to price volatility.**

Our common stock is traded on The NASDAQ Global Market. During the twelve months ended September 30, 2006, the average daily trading volume for our common stock as reported by The NASDAQ Global Market was 69,977 shares. A more active trading market in our common stock may not develop. As a result, relatively small trades may have a significant impact on the price of our common stock.

**We may reduce or discontinue paying dividends in the future.**

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Our ability to pay dividends in the future depends on our ability to operate profitably and to generate cash from our operations in excess of our debt service obligations. Our board of directors has discretion to reduce or discontinue paying dividends if it decides to utilize the cash for other corporate purposes. In addition, our credit agreement and the indentures governing the notes and the 8% notes provide for an adjustment in the conversion price if we pay a dividend in excess of \$0.16 per year on our common stock. We cannot guarantee that we will continue to pay dividends at their historical level or at all.

**We have anti-takeover defenses that could delay or prevent an acquisition and could adversely affect the price of our common stock.**

Provisions in our certificate of incorporation and by-laws and provisions of Delaware law could delay, defer or prevent an acquisition or change of control of us or otherwise adversely affect the price of our common stock. Our by-laws limit the ability of stockholders to call a special meeting. Delaware law also contains certain provisions that may have an anti-takeover effect and otherwise discourage third parties from effecting transactions with us. See Description of Our Capital Stock.

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**FORWARD-LOOKING STATEMENTS**

All statements other than statements of historical facts included in this prospectus are statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. The words may, will, should, could, expect, plan, estimate, anticipate, predict, believe, potential, continue, and similar expressions and variations thereof are intended to identify forward-looking statements. Forward-looking statements appear in a number of places and include statements regarding our intent, belief or current expectations with respect to, among other things:

trends affecting our financial condition or results of operations;

our financing plans;

our business and growth strategies, including potential acquisitions; and

other plans and objectives for future operations.

You are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results may differ materially from those predicted in the forward-looking statements or that may be anticipated from historical results or trends. In addition to the information contained in our other filings with the SEC, factors that could affect future performance include, among others, those set forth under the heading Risk Factors.

We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all the risk factors, nor can it assess the impact of all the risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of this prospectus, as a prediction of actual results.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements above. You should not place undue reliance on those statements, which speak only as of the date on which they are made. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

You should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, you should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, those reports are not our responsibility.

**Table of Contents****USE OF PROCEEDS**

We will receive no proceeds from the sale of the notes or their conversion to common stock. The initial offering of the notes was made through an unregistered exchange with a limited number of holders of our 7 1/4% debentures and our 8 1/4% debentures. We received no proceeds as a result of this exchange offer.

**MARKET AND MARKET PRICES**

Our common stock trades on The NASDAQ Global Market under the trading symbol **RELL**. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market.

	<u>High</u>	<u>Low</u>
<b>Fiscal Year Ended May 29, 2004</b>		
First Quarter	\$ 10.79	\$ 7.83
Second Quarter	\$ 12.57	\$ 9.65
Third Quarter	\$ 14.00	\$ 10.00
Fourth Quarter	\$ 14.08	\$ 9.41
<b>Fiscal Year Ending May 28, 2005</b>		
First Quarter	\$ 11.96	\$ 7.53
Second Quarter	\$ 11.30	\$ 7.50
Third Quarter	\$ 11.76	\$ 9.70
Fourth Quarter	\$ 11.49	\$ 7.46
<b>Fiscal Year Ended June 3, 2006</b>		
First Quarter	\$ 9.38	\$ 6.55
Second Quarter	\$ 8.50	\$ 6.78
Third Quarter	\$ 9.05	\$ 6.89
Fourth Quarter	\$ 9.40	\$ 6.24
<b>Fiscal Year Ended June 2, 2007</b>		
First Quarter	\$ 8.68	\$ 6.58
Second Quarter (through October 23, 2006)	\$ 9.25	\$ 8.01

On October 23, 2006, the last reported sale price of our common stock on The NASDAQ Global Market was \$9.12 per share. As of October 23, 2006 there were approximately 885 stockholders of record of our common stock and approximately 18 stockholders of record of our Class B common stock.

**DIVIDEND POLICY**

We have paid quarterly dividends of \$.04 per share of common stock and \$.036 per share of Class B common stock since September 1988. All future payment of dividends are at the discretion of our board of directors and will depend on our earnings, capital requirements, operating conditions, and such other factors that the board of directors may deem relevant.

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Pursuant to our credit agreement, we are prohibited from paying dividends in excess of an annualized rate of \$0.16 per share of common stock and \$0.144 per share of Class B common stock. In addition, our credit agreement prohibits our subsidiaries, other than wholly owned subsidiaries, from paying dividends. Pursuant to the indentures that govern the notes and the 8% notes, the conversion price of the notes and the 8% notes would be adjusted if, among other things, we pay dividends in excess of an annualized rate of \$0.16 per share of common stock.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table contains selected consolidated financial data as of and for the fiscal years ended June 1, 2002, May 31, 2003, May 29, 2004, May 28, 2005, and June 3, 2006 and as of and for the three months ended September 3, 2005 and September 2, 2006. The selected consolidated financial data as of May 28, 2005 and June 3, 2006 and for the fiscal years ended May 29, 2004, May 28, 2005, and June 3, 2006, are derived from our audited consolidated financial statements contained elsewhere in this prospectus. The selected consolidated financial data as of and for the three months ended September 3, 2005 and September 2, 2006 are derived from our unaudited financial statements contained elsewhere in this prospectus and, in our opinion, reflect all adjustments, which are normal and recurring adjustments, necessary for a fair presentation. Our results of operations for the three months ended September 2, 2006 may not be indicative of the results that may be expected for the full year. The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes to those consolidated financial statements contained elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected in the future.

	Fiscal Year Ended <sup>(1)</sup>					Three Months Ended	
	June 1, 2002 <sup>(2)</sup>	May 31, 2003 <sup>(3)</sup>	May 29, 2004 <sup>(4)</sup>	May 28, 2005 <sup>(5)</sup>	June 3, 2006	September 3, 2005	September 2, 2006
	(In thousands, except per share amounts)						
						(Unaudited)	(Unaudited)
<b>Statement of Operations Data:</b>							
Net sales	\$ 443,415	\$ 464,381	\$ 519,823	\$ 578,724	\$ 637,940	\$ 158,145	\$ 165,755
Cost of sales	349,914	364,918	393,101	442,730	482,171	119,613	124,436
Gross profit	93,501	99,463	126,722	135,994	155,769	38,532	41,319
Selling, general and administrative expenses <sup>(6)(7)</sup>	98,993	100,613	107,968	129,747	139,640	32,981	35,379
(Gain) loss on disposal of assets <sup>(8)</sup>			579	(9,918)	3	(140)	(19)
Other expense, net <sup>(9)</sup>	13,601	9,700	10,258	7,582	10,550	2,076	5,874
Income (loss) before income taxes	(19,093)	(10,850)	7,917	8,583	5,576	3,615	85
Income tax (benefit) provision	(6,206)	(1,968)	2,385	24,600	8,218	1,795	1,184
Income (loss) before cumulative effect of accounting change	(12,887)	(8,882)	5,532	(16,017)	(2,642)	\$ 1,820	\$ (1,099)
Cumulative effect of accounting change, net of tax <sup>(10)</sup>		(17,862)					
Net income (loss)	\$ (12,887)	\$ (26,744)	\$ 5,532	\$ (16,017)	\$ (2,642)	\$ 1,820	\$ (1,099)
<b>Net income (loss) per common share basic</b>							
Before cumulative effect of accounting change	\$ (0.97)	\$ (0.66)	\$ 0.40	\$ (0.96)	\$ (0.15)	\$ 0.11	\$ (0.06)
Cumulative effect of accounting change, net of tax		(1.32)					
Net income (loss) per common share basic	\$ (0.97)	\$ (1.98)	\$ 0.40	\$ (0.96)	\$ (0.15)	\$ 0.11	\$ (0.06)
<b>Net income (loss) per Class B common share basic</b>							
Before cumulative effect of accounting change	\$ (0.87)	\$ (0.59)	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
Cumulative effect of accounting change, net of tax		(1.19)					
Net income (loss) per Class B common share basic	\$ (0.87)	\$ (1.78)	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
<b>Net income (loss) per common share diluted</b>							
Before cumulative effect of accounting change	\$ (0.97)	\$ (0.66)	\$ 0.38	\$ (0.96)	\$ (0.15)	\$ 0.10	\$ (0.06)

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Cumulative effect of accounting change, net of tax		(1.32)					
Net income (loss) per common share diluted	\$ (0.97)	\$ (1.98)	\$ 0.38	\$ (0.96)	\$ (0.15)	\$ 0.10	\$ (0.06)
<b>Net income (loss) per Class B common share diluted</b>							
Before cumulative effect of accounting change	\$ (0.87)	\$ (0.59)	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
Cumulative effect of accounting change, net of tax		(1.19)					
Net income (loss) per Class B common share diluted	\$ (0.87)	\$ (1.78)	\$ 0.36	\$ (0.87)	\$ (0.14)	\$ 0.10	\$ (0.06)
<b>Weighted-average number of common shares outstanding:</b>							
Common stock basic	10,410	10,602	10,872	13,822	14,315	14,264	14,400
Class B common stock basic	3,207	3,207	3,168	3,120	3,093	3,120	3,093
Common stock diluted	10,410	10,602	14,418	13,822	14,315	17,488	14,400
Class B common stock diluted	3,207	3,207	3,168	3,120	3,093	3,120	3,093
Dividends per common share	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.160	\$ 0.040	\$ 0.040
Dividends per Class B common share <sup>(11)</sup>	\$ 0.144	\$ 0.144	\$ 0.144	\$ 0.144	\$ 0.144	\$ 0.036	\$ 0.036
<b>Other Data:</b>							
Interest expense	\$ 12,386	\$ 10,352	\$ 10,257	\$ 8,947	\$ 9,809	\$ 2,277	\$ 2,983
Investment income	352	124	227	388	411	108	77
Depreciation and amortization	5,980	5,137	4,989	5,298	6,240	1,516	1,548
Capital expenditures	5,861	4,975	5,468	6,975	6,211	1,070	859
Ratio of earnings to fixed charges	(12)	(12)	1.5	(12)	(12)	1.7	(12)



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	As of <sup>(1)</sup>					As of	
	June 1, 2002	May 31, 2003	May 29, 2004	May 28, 2005	June 3, 2006	September 2, 2005	September 3, 2006
	(In thousands, unless otherwise stated)						
<b>Balance Sheet Data</b>						(Unaudited)	(Unaudited)
Cash	\$ 15,189	\$ 16,611	\$ 16,572	\$ 24,301	\$ 17,010	\$ 19,706	\$ 18,202
Working capital	187,972	178,525	172,593	153,840	158,231	150,832	168,795
Property, plant and equipment, net	29,336	30,810	30,534	31,712	32,357	31,455	31,773
Total assets	286,783	267,293	281,035	283,940	309,299	296,443	316,428
Current maturities of long-term debt	38	46	4,027	22,305	14,016	23,451	14,016
Long-term debt	132,218	138,396	133,813	98,028	112,792	99,046	124,128
Stockholders' equity	101,917	77,606	86,181	97,396	98,240	100,499	96,765

- (1) We account for our results of operations on a 52/53 week year, ending the fiscal year on the Saturday nearest May 31.
- (2) In the third quarter of fiscal 2002, we recorded a \$4.6 million loss (\$2.9 million net of tax) related to the disposition of our medical glassware business. In the fourth quarter of fiscal 2002, we recorded a \$15.3 million charge (\$9.8 million net of tax) primarily related to inventory obsolescence.
- (3) In the fourth quarter of fiscal 2003, we recorded a \$16.1 million charge (\$10.3 million net of tax) principally related to inventory write-downs and restructuring charges, including a \$1.7 million restructuring charge to selling, general and administrative expenses as we eliminated over 70 positions or approximately 6% of our workforce. In addition, we recorded incremental tax provisions of \$1.6 million to establish a valuation allowance related to our deferred tax assets outside the United States.
- (4) We recorded incremental tax provisions of \$2.5 million in fiscal 2004 to increase the valuation allowance related to our deferred tax assets outside the United States.
- (5) In the third quarter of fiscal 2005, we recorded a \$2.2 million restructuring charge to selling, general and administrative expenses as we terminated over 60 employees. In addition, we recorded incremental tax provisions of \$16.7 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$15.9 million) and outside the United States (\$0.8 million)
- (6) During the fourth quarter of fiscal 2006, we recorded employee severance costs of \$2.7 million for certain employees whose termination became probable and estimable.
- (7) During the first quarter of fiscal 2007, we recorded restructuring charges of \$0.9 million in selling, general and administrative expenses as we implemented the global restructuring plan.
- (8) In the fourth quarter of fiscal 2005, we completed the sale of approximately 205 acres of undeveloped real estate adjoining our headquarters in LaFox, Illinois, resulting in a gain of \$9.9 million before taxes.
- (9) During the first quarter of fiscal 2007, we recorded retirement of long-term debt expenses of \$2.5 million in other, net expenses as we entered into two separate agreements in August 2006 with certain holders of our 8% notes to purchase \$14.0 million of the 8% notes.
- (10) In the second quarter of fiscal 2003, we adopted SFAS 142, Goodwill and Other Intangible Assets and as a result recorded a cumulative effect adjustment of \$17.9 million net of tax of \$3.7 million to write off impaired goodwill. Additionally, effective at the beginning of fiscal 2003, we no longer amortized goodwill. Income (loss) before taxes included goodwill amortization of \$0.6 million in fiscal 2002.
- (11) The dividend per Class B common share was 90% of the dividend per common share.
- (12) Due to losses in fiscal 2002, fiscal 2003, fiscal 2005, and fiscal 2006, and the first quarter of fiscal 2007, earnings were insufficient to cover fixed charges in the amounts indicated in Summary Ratio of Earnings to Fixed Charges.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

**Overview**

We are a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, security, and display systems markets. Utilizing our core engineering and manufacturing capabilities, we are committed to a strategy of providing specialized technical expertise and value-added products, or engineered solutions, in response to customers needs. These solutions consist of products which we manufacture or modify and products which are manufactured to our specifications by independent manufacturers under our own private labels. Additionally, we provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for our customers' end products. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

Our products include RF and microwave components, power semiconductors, electron tubes, microwave generators, data display monitors, and electronic security products and systems. These products are used to control, switch or amplify electrical power or signals, or as display, recording, or alarm devices in a variety of industrial, communication, and security applications.

In June 2005, we acquired A.C.T. Kern GmbH & Co. KG (Kern) located in Germany. The cash paid for Kern was \$6.6 million, net of cash acquired. Kern is one of the leading display technology companies in Europe with worldwide customers in manufacturing, OEM, medicine, multimedia, IT trading, system houses, and other industries. In addition, in October 2005, we acquired certain assets of Image Systems Corporation (Image Systems), a subsidiary of Communications Systems, Inc. in Hector, Minnesota, which is a specialty supplier of displays, display controllers, and calibration software for the healthcare market. The initial cash outlay for Image Systems was \$0.2 million. Both Kern and Image Systems were integrated into the Display Systems Group.

In an effort to reduce our global operating costs related to logistics, selling, general, and administrative expenses and to better align our operating and tax structure on a global basis, we have now begun to implement a global restructuring plan. This plan is intended to reduce corporate and administrative expense, decrease the number of warehouses, and streamline the entire organization. During fiscal 2007, we will be implementing a more tax-effective supply chain structure for Europe and Asia/Pacific, restructuring our Latin American operations, and reducing the total workforce which includes eliminating and restructuring layers of management.

The total restructuring and severance costs to implement the plan are estimated to be \$6.0 million, of which \$2.7 million of severance costs were recorded in the fourth quarter of fiscal 2006 and \$0.9 million of severance costs were recorded in the first quarter of fiscal 2007. The balance will be incurred in fiscal 2007 as the plan is implemented. We expect to realize the full impact of the cost savings from the restructuring plan in fiscal 2008.

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Our marketing, sales, product management, and purchasing functions are organized as four strategic business units (SBUs): RF, Wireless & Power Division (RFPD), Electron Device Group (EDG), Security Systems Division/Burtek Systems (SSD/Burtek) and Display Systems Group (DSG), with operations in the major economic regions of the world: North America, Europe, Asia/Pacific, and Latin America.

During the second quarter of fiscal 2006, we implemented a reorganization plan encompassing the RF & Wireless Communications Group (RFWC) and Industrial Power Group (IPG) business units. Effective for the second quarter of fiscal 2006, IPG has been designated as Electron Device Group (EDG) and RFWC has been designated as RF, Wireless & Power Division (RFPD). The reorganization was implemented to increase

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efficiencies by integrating IPG's power conversion sales and product management into RFWC, improving the geographic sales coverage and driving sales growth by leveraging RFWC's larger sales resources. In addition, we believe that EDG will benefit from an increased focus on the high-margin tube business with a simplified global sales and product management structure to work more effectively with customers and vendors. The data presented has been reclassified to reflect the reorganization.

During the first quarter of fiscal 2007, we changed the name of our Security Systems Division (SSD) to Burtek Systems (SSD/Burtek) to take advantage of Burtek's positive brand recognition within the sound and security industry.

**Results of Operations**

*Three Months Ended September 2, 2006 Compared to the Three Months Ended September 3, 2005*

**Net Sales and Gross Profit Analysis**

During the first quarter of fiscal 2007, consolidated net sales increased 4.8% to \$165,755 due to higher sales in wireless and electron device products over the first quarter of fiscal 2006. The first quarter of fiscal 2007 contained 13 weeks as compared to 14 weeks for the first quarter of fiscal 2006. Net sales by SBU and percent change are in the following table (in thousands):

	<u>FY 2007</u>	<u>FY 2006</u>	<u>% Change</u>
<b>Net Sales</b>			
<b>First Quarter</b>			
RFPD	\$ 91,332	\$ 81,157	12.5%
EDG	24,674	23,838	3.5%
SSD/Burtek	26,318	26,904	(2.2%)
DSG	21,829	24,450	(10.7%)
Corporate	1,602	1,796	
	<u>          </u>	<u>          </u>	
<b>Total</b>	<b>\$ 165,755</b>	<b>\$ 158,145</b>	<b>4.8%</b>
	<u>          </u>	<u>          </u>	

*Note: The fiscal 2006 data has been reclassified to conform with the fiscal 2007 presentation. The modification includes the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second quarter of fiscal 2006. Corporate consists of freight, other non-specific net sales, and customer cash discounts.*

Consolidated gross profit increased 7.2% to \$41,319 in the first quarter of fiscal 2007 as compared with \$38,532 in the same period last fiscal year due mainly to an increase in wireless sales volume. Consolidated gross margin as a percentage of net sales increased to 24.9% in the first quarter of fiscal 2007 versus 24.4% in the first quarter of fiscal year 2006. As a percentage of sales, gross margin improved in fiscal 2007 due primarily to an improved product mix in RFPD. Gross profit reflects the distribution and manufacturing product margin less manufacturing variances, customer returns, scrap and cycle count adjustments, engineering costs, inventory overstock charges, and other provisions. Gross profit on freight, general inventory obsolescence provisions, and miscellaneous costs are included under the caption Corporate. Gross profit by SBU and percent of SBU sales are presented in the following table (in thousands):

	<u>FY 2007</u>	<u>% of Net Sales</u>	<u>FY 2006</u>	<u>% of Net Sales</u>
<b>Gross Profit</b>				
<b>First Quarter</b>				
RFPD	\$ 21,463	23.5%	\$ 18,196	22.4%
EDG	7,711	31.3%	7,732	32.4%
SSD/Burtek	6,967	26.5%	7,014	26.1%
DSG	4,965	22.7%	6,015	24.6%
Corporate	213		(425)	
	<u>          </u>		<u>          </u>	
Total	\$ 41,319	24.9%	\$ 38,532	24.4%
	<u>          </u>		<u>          </u>	

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*Note: The fiscal 2006 data has been reclassified to conform with the fiscal 2007 presentation. The modification includes the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second quarter of fiscal 2006. Corporate consists of freight, other non-specific gross profit, and customer cash discounts.*

Net sales and gross profit trends are analyzed for each strategic business unit in the discussion below.

### ***RF, Wireless & Power Division***

RFPD net sales increased 12.5% in the first quarter of fiscal 2007 to \$91,332 as compared with \$81,157 in the same period last fiscal year. The net sales growth for the first quarter of fiscal 2007 was due mainly to an increase in sales of power conversion, passive/interconnect, infrastructure, and network access products. Net sales of power conversion grew 58.6% to \$6,211 in the first quarter of fiscal 2007 as compared with \$3,917 in the same period last fiscal year. The power conversion business has aligned itself with the high growth strategy of RFPD as a result of the global restructuring and the change in the sales and marketing strategy of the power conversion business that occurred during fiscal 2006. In addition, power conversion has grown in Asia/Pacific due to improved net sales of induction heating and power supply applications for welding and steel manufacturing markets. Net sales of passive/interconnect products increased 17.3% in the first quarter of fiscal 2007 to \$15,170 from \$12,934 in the first quarter of fiscal 2006 with higher sales in North America, Europe, and Asia/Pacific. Strong sales in North America and Asia/Pacific were the main contributors to the 12.8% growth of the infrastructure product lines with sales of \$24,083 in the first quarter of fiscal 2007 versus \$21,355 last fiscal year. Network access product sales improved 5.9% to \$32,450 from \$30,630 in the same first quarter period last year due to continued strong sales to the wireless infrastructure and military/defense markets in North America, as well as the growing longer-range wireless connectivity (Wimax) and digital broadcast markets. RFPD's gross profit increased 18.0% to \$21,463 in the first quarter of 2007, from \$18,196 in the prior year, due primarily to increased sales volume. RFPD's gross margin percentage increased to 23.5% from 22.4% for the first quarter of fiscal 2007 and 2006, respectively, primarily due to an improved product mix, favorable inventory overstock experience and the continued restructuring strategy.

### ***Electron Device Group***

EDG net sales increased 3.5% in the first quarter of fiscal 2007 to \$24,674 from \$23,838 during the same period last fiscal year. The increase was due to growth in semiconductor fabrication equipment sales of 45.5% to \$5,672 in the first quarter of fiscal 2007 as compared to \$3,897 in the same period last fiscal year, mainly in North America. This increase was partially offset by a decline in tube sales of 5.9% to \$16,509 during the first quarter of fiscal 2007 as compared to \$17,546 last year. Gross profit for EDG during the first quarter of fiscal 2007 of \$7,711 was relatively flat with gross profit of \$7,732 for the same period last year. Gross margin as a percentage of net sales decreased to 31.3% from 32.4% for the first quarter of fiscal 2007 and 2006, respectively, due to a shift in product mix.

### ***SSD/Burtek Systems***

Net sales for SSD/Burtek decreased to \$26,318 in the first quarter of fiscal 2007 as compared with \$26,904 in the first quarter last year. The decrease was mainly due to lower sales of distribution products with net sales of \$17,153, 6.0% lower than \$18,246 last year. In addition, net sales of private label products decreased 4.3% to \$8,116 during the first quarter of fiscal 2007 as compared with \$8,483 during the same period of last fiscal year. Gross profit for SSD/Burtek during the first quarter of fiscal 2007 of \$6,967 was relatively flat with gross profit of \$7,014 for the same period last year. Gross margin as a percent of net sales increased to 26.5% for the first quarter of fiscal 2007, as compared with 26.1% during the same time period of last fiscal year, primarily due to improved gross margins of distribution products.

*Display Systems Group*

DSG net sales decreased 10.7% in the first quarter of fiscal 2007 to \$21,829 as compared with \$24,450 in the same period last fiscal year. The net sales decline during the first quarter of fiscal 2007 was due primarily to

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the decrease in the custom display and cathode ray tube (CRT) product lines. Custom display's net sales were \$9,928 in the first quarter of fiscal 2007, 15.8% lower than \$11,788 in the same period of last year. DSG has a project-based business and approximately 65% of the net sales decline in the custom display product line is due to the completion of a large project with the New York Stock Exchange during the first quarter of fiscal 2006. The remaining decline is due to the timing of the closing of other smaller projects. Net sales of CRT products decreased 28.5% to \$2,171 in the first quarter of fiscal 2007 as compared to \$3,038 last fiscal year. DSG gross profit decreased 17.5% to \$4,965 during the first quarter of fiscal 2007, from \$6,015 for the same time period last year. The gross margin percentage decreased to 22.7% from 24.6% during the first quarter of fiscal 2007 and 2006, respectively. The gross margin decrease was due mainly to decreased sales of the higher margin custom display and CRT product lines.

**Sales by Geographic Area**

On a geographic basis, we categorize our sales by destination: North America, Asia/Pacific, Europe, Latin America, and Corporate. Net sales and gross margin, as a percent of net sales, by geographic area are as follows (in thousands):

	<u>FY 2007</u>	<u>FY 2006</u>	<u>% Change</u>
<b>Net Sales</b>			
<b>First Quarter</b>			
North America	\$ 83,230	\$ 82,121	1.4%
Asia/Pacific	39,506	37,200	6.2%
Europe	36,422	32,806	11.0%
Latin America	5,578	6,000	(7.0%)
Corporate	1,019	18	
	<u>          </u>	<u>          </u>	
Total	\$ 165,755	\$ 158,145	4.8%
	<u>          </u>	<u>          </u>	

*Note: Europe includes net sales to the Middle East and Africa. Latin America includes net sales to Mexico. Corporate consists of freight and other non-specific net sales.*

Gross profit by geographic area and percent of geographic sales are presented in the following table (in thousands):

	<u>FY</u>	<u>% of</u>	<u>FY</u>	<u>% of</u>
	<u>2007</u>	<u>Net Sales</u>	<u>2006</u>	<u>Net Sales</u>
<b>Gross Profit</b>				
<b>First Quarter</b>				
North America	\$ 21,764	26.1%	\$ 21,489	26.2%
Asia/Pacific	9,567	24.2%	9,138	24.6%
Europe	9,820	27.0%	9,326	28.4%
Latin America	1,623	29.1%	1,522	25.4%
Corporate	(1,455)		(2,943)	
	<u>          </u>		<u>          </u>	
Total	\$ 41,319	24.9%	\$ 38,532	24.4%



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*Note: Europe includes gross profit to the Middle East and Africa. Latin America includes gross profit to Mexico. Corporate consists of freight and other non-specific gross profit.*

Net sales in North America increased 1.4% in the first quarter of fiscal 2007 to \$83,230 as compared with \$82,121 in the same period of fiscal 2006. The net sales increase in the first quarter of fiscal 2007 was mainly due to an increase in demand in wireless products partially offset by a decrease in net sales of display systems products. Gross margin remained relatively flat at 26.1% in the first quarter of fiscal 2007 as compared with 26.2% in fiscal 2006.

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Net sales in Asia/Pacific increased 6.2% to \$39,506 in the first quarter of fiscal 2007 versus \$37,200 in the same period last fiscal year, led by strong demand for power conversion and wireless infrastructure products. Net sales in Japan and China increased 24.9% and 14.9% to \$6,519 and \$12,667 in the first quarter of fiscal 2007, respectively. Gross margin decreased slightly to 24.2% due to an increase in sales of lower margin wireless products.

Net sales in Europe grew 11.0% in the first quarter of fiscal 2007 to \$36,422 from \$32,806 in the same period a year ago due to increased demand in wireless and EDG products, partially offset by decreases in security systems and display system products. Net sales in Germany increased 29.5% to \$10,016 in the first quarter of fiscal 2007 with higher net sales of network access products. In addition, net sales in Israel improved 18.7% to \$3,153 with growth in wireless products. Gross margin in Europe decreased to 27.0% from 28.4% during the first quarter of fiscal 2007 and 2006, respectively, primarily due to an increase in sales of lower margin wireless products.

Net sales in Latin America decreased 7.0% to \$5,578 in the first quarter of fiscal 2007 as compared with \$6,000 in the first quarter of fiscal 2006. The decline was mainly driven by a decrease in sales of security systems products, partially offset by an increase in wireless products. Gross margin in Latin America increased to 29.1% in the first quarter of fiscal 2007, versus 25.4% in the year ago period due primarily to sales of higher margin wireless and EDG products.

### ***Selling, General and Administrative Expenses***

SG&A increased 7.3% to \$35,379 in the first quarter of fiscal 2007 as compared with \$32,981 in the same period last fiscal year. The increase in expenses for the first quarter of fiscal 2007 as compared with the first quarter of fiscal 2006 was primarily due to severance expense related to the 2007 Restructuring Plan of \$868, restatement related expenses of \$570, and additional stock compensation expense of \$174 related to the adoption of SFAS No. 123(R). For the first quarter of fiscal 2007, total SG&A increased to 21.3% of net sales, compared with 20.9% in last fiscal year's first quarter.

### ***Other (Income) Expense***

In the first quarter of fiscal 2007, other (income) expense increased to an expense of \$5,874 from an expense of \$2,076 during the first quarter of fiscal 2006. Other (income) expense included costs associated with the retirement of long-term debt of \$2,540 in the first quarter of fiscal 2007 due to us entering into two separate agreements in August 2006 with certain holders of our 8% convertible senior subordinated notes (8% notes) to purchase \$14,000 of the 8% notes. Other (income) expense also included a foreign exchange loss of \$394 during the first quarter of fiscal 2007 as compared with a foreign exchange gain of \$137 during the same period last fiscal year. Interest expense increased to \$2,983 for the first quarter of fiscal 2006 as compared with \$2,277 during the same period of last fiscal year due to higher average balances on our multi-currency revolving credit agreement (credit agreement) and an increase in interest rates. Our weighted average interest rates increased to 7.5% in the first quarter of fiscal 2007 as compared to 6.5% in the prior year.

### ***Income Tax Provision***

The income tax provision for the first quarter of fiscal 2007 and 2006 was \$1,184 and \$1,795, respectively, which resulted in an effective income tax rate of 1,392.9% and 49.7%, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from our geographical distribution of taxable income or losses and valuation allowances related to net operating

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losses in the first quarter of fiscal 2007 and 2006. For the first quarter of fiscal 2007, the tax benefit related to net operating losses was limited by the requirement for a valuation allowance of \$1,525.

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Net loss for the first quarter of fiscal 2007 was \$1,099, or \$0.06 per diluted common share and \$0.06 per Class B diluted common share as compared with net income of \$1,820 for the first quarter of fiscal 2006, or \$0.10 per diluted common share and \$0.10 per Class B diluted common share.

*Comparison of Years Ended June 3, 2006, May 28, 2005, and May 29, 2004*

**Net Sales and Gross Profit Analysis**

In fiscal 2006, consolidated net sales increased 10.2% to \$637.9 million as all four SBUs increased net sales over the prior year with strong demand for custom display and wireless products. In addition, effective June 1, 2005, we acquired Kern, a leading display technology company in Europe. Net sales for Kern, included in DSG and the Europe region, for fiscal 2006 were \$14.1 million. Fiscal 2006 contained 53 weeks as compared to 52 weeks in fiscal 2005. Consolidated net sales in fiscal 2005 increased 11.3% to \$578.7 million due to increased demand across all SBUs. Net sales by SBU and percent change year-over-year are presented in the following table (in thousands):

	Fiscal Year Ended				
	June 3, 2006	May 28, 2005	May 29, 2004	FY06 vs FY05 % Change	FY05 vs FY04 % Change
<b>Net Sales</b>					
RFPD	\$ 334,131	\$ 296,334	\$ 256,270	12.8%	15.6%
EDG	94,443	92,174	87,856	2.5%	4.9%
SSD/Burtek	108,843	105,581	101,979	3.1%	3.5%
DSG	95,010	78,078	66,452	21.7%	17.5%
Corporate	5,513	6,557	7,266	(15.9%)	(9.8%)
<b>Total</b>	<b>\$ 637,940</b>	<b>\$ 578,724</b>	<b>\$ 519,823</b>	<b>10.2%</b>	<b>11.3%</b>

*Note: The fiscal 2005 and fiscal 2004 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second quarter of fiscal 2006. Corporate consists of freight, other non-specific net sales, and customer cash discounts.*

Gross profit reflects the distribution and manufacturing product margin less manufacturing variances, customer returns, scrap and cycle count adjustments, engineering costs, and other provisions. Gross profit on freight, general inventory obsolescence provisions, and miscellaneous costs are included under the caption Corporate in fiscal 2004. In fiscal 2006 and 2005, we allocated charges related to inventory overstock directly to each SBU. Gross profit by SBU and percent of SBU sales are presented in the following table (in thousands):

	Fiscal Year Ended					
	June 3, 2006		May 28, 2005		May 29, 2004	
<b>Gross Profit</b>						
RFPD	\$ 75,834	22.7%	\$ 64,853	21.9%	\$ 58,408	22.8%
EDG	30,438	32.2%	29,401	31.9%	27,642	31.5%
SSD/Burtek	27,279	25.1%	26,889	25.5%	26,045	25.5%
DSG	24,509	25.8%	17,865	22.9%	17,105	25.7%
Subtotal	158,060	25.0%	139,008	24.3%	129,200	25.2%
Corporate	(2,291)		(3,014)		(2,478)	
Total	\$ 155,769	24.4%	\$ 135,994	23.5%	\$ 126,722	24.4%

*Note: The fiscal 2005 and fiscal 2004 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second*

*quarter of fiscal 2006. Corporate consists of freight, other non-specific gross profit, and customer cash discounts.*

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Net sales and gross profit trends are analyzed for each strategic business unit in the following sections.

### ***RF, Wireless & Power Division***

RFPD net sales increased 12.8% in fiscal 2006 to \$334.1 million as compared with \$296.3 million in fiscal 2005. The RFPD net sales growth for fiscal 2006 was mainly due to an increase in sales of the network access and infrastructure product lines. Network access products sales grew 16.9% to \$123.2 million from \$105.3 million last fiscal year, primarily due to sales growth in Asia/Pacific. Sales of infrastructure products increased to \$80.5 million, 10.7% higher than \$72.7 million in fiscal 2005 due to sales growth in the U.S. and Europe. The net sales growth was the main contributor to the gross profit increase of 16.9% to \$75.8 million for fiscal 2006. RFPD's gross margin increased to 22.7% in fiscal 2006 from 21.9% in fiscal 2005, primarily due to inventory write-downs of \$1.3 million recorded in the third quarter of fiscal 2005, and a shift in product mix in fiscal 2006 as a result of higher sales of engineered solutions. The gross margin improvement was partially offset by the increase in Asia/Pacific sales that reduced the overall gross margin due to lower gross margins in Asia/Pacific than other geographic regions.

RFPD net sales increased 15.6% in fiscal 2005 to \$296.3 million. The sales growth was driven by continued strength in the network access and passive/interconnect product lines as net sales grew 22.1% and 18.0% to \$105.3 million and \$53.3 million, respectively. The increase in network access product lines sales in fiscal 2005 was a result of increased demand for semiconductor products from mobile infrastructure customers in Asia/Pacific and North America. The increase in passive/interconnect product lines sales was due mainly to sales of interconnect products to North American customers involved with the emergency (E911) cell phone location system rollout. Net sales in Asia/Pacific increased 22.9% to \$94.2 million in fiscal 2005, driven by OEM demand in 2.5 generation (2.5G) infrastructure, broadcasting and semiconductor fabrication equipment markets. Gross margins in fiscal 2005 decreased 90 basis points primarily due to inventory write-downs of \$1.3 million recorded in the third quarter of fiscal 2005 when we implemented restructuring actions.

### ***Electron Device Group***

EDG net sales increased 2.5% during fiscal 2006 to \$94.4 million from \$92.2 million during fiscal 2005. Semiconductor fabrication sales increased 22.5% during fiscal 2006 to \$17.2 million as compared to \$14.0 million in fiscal 2005 with growth mainly in the U.S. Gross profit for EDG increased 3.5% to \$30.4 million during fiscal 2006 due to an improved product mix. Gross margin increased to 32.2% from 31.9% for fiscal 2006 and 2005, respectively, due to a slightly improved product mix primarily as a result of the increase in semiconductor fabrication equipment sales.

EDG net sales in fiscal 2005 grew 4.9% to \$92.2 million as tube net sales grew 4.3% in fiscal 2005 to \$80.8 million. Fiscal 2005 sales of broadcast tubes were lower than in fiscal 2004 as many of the large government broadcast orders are issued on an every other year basis. Gross margins in fiscal 2005 increased 40 basis points to 31.9% primarily due to growth of higher margin tube products partially offset by additional freight expenses of \$0.5 million in fiscal 2005.

### ***SSD/Burtek Systems***

Net sales for SSD/Burtek increased 3.1% to \$108.8 million in fiscal 2006 from \$105.6 million in fiscal 2005. Net sales of private label products increased 9.0% to \$35.0 million during fiscal 2006 as compared with \$32.1 million during fiscal 2005, and were partially offset by a slight decrease in distribution products. Net sales in Canada in fiscal 2006 increased 13.2% from the prior year; however, net sales in Europe and the

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U.S. in fiscal 2006 decreased 18.0% and 9.8%, respectively. Gross profit and gross margin as a percentage of net sales remained relatively flat during fiscal 2006 as compared to fiscal 2005.

Net sales for SSD/Burtek increased 3.5% in fiscal 2005 to \$105.6 million driven by stronger demand in Canada, partially offset by weaker demand in the U.S. and Europe. Net sales in Canada grew 12.9% to

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\$58.5 million, due in part to sales growth in key national accounts and a strengthened relationship with a major vendor partner, with net sales in the U.S. and Europe declining 8.7% and 4.4% to \$27.9 million and \$14.2 million, respectively, in fiscal 2005. Gross margins were 25.5% in both fiscal 2005 and 2004. Inventory write-downs of \$0.3 million recorded in the third quarter of fiscal 2005 when we implemented restructuring actions and additional freight expenses of \$1.0 million were partially offset by increased growth of higher margin private label sales.

**Display Systems Group**

DSG net sales increased 21.7% during fiscal 2006 to \$95.0 million as compared with \$78.1 million in fiscal 2005. Net sales for Kern in fiscal 2006 were \$14.1 million. The sales growth for fiscal 2006 was mainly due to the Kern acquisition and an increase in sales of the custom display product line which increased 18.4% to \$26.9 million as compared to \$22.7 million for fiscal 2005. The sales increase was partially offset by lower sales in the specialty displays and cathode ray tube product lines. DSG gross profit increased 37.2% to \$24.5 million during fiscal 2006 from \$17.9 million for fiscal 2005 due mainly to the higher sales volume. Gross margin increased to 25.8% from 22.9% during fiscal 2006 and 2005, respectively. The gross margin improvement was due mainly to an improved product mix primarily from sales growth in the medical monitor product lines. In addition, during the second quarter of fiscal 2006, we recorded a reduction in warranty expense of \$0.9 million as a result of a change in estimate due to favorable warranty experience.

DSG net sales in fiscal 2005 grew 17.5% to \$78.1 million as large orders drove custom display net sales to increase by 63.7% to \$22.0 million. Gross margins in fiscal 2005 decreased 280 basis points primarily due to declining average selling prices for medical monitors.

**Sales by Geographic Area**

We have grown through a balanced emphasis on investment in both North America and other areas of the world and currently have 37 facilities in North America, 22 in Europe, 15 in Asia/Pacific, and 5 in Latin America. On a geographic basis, we primarily categorize our sales by destination: North America, Europe, Asia/Pacific, Latin America, and Corporate. Net sales by geographic area and percent change year-over-year are presented in the following table (in thousands):

	Fiscal Year Ended				
	June 3, 2006	May 28, 2005	May 29, 2004	FY06 vs FY05 % Change	FY05 vs FY04 % Change
<b>Net Sales</b>					
North America	\$ 319,362	\$ 303,708	\$ 275,491	5.2%	10.2%
Europe	140,870	123,846	116,714	13.7%	6.1%
Asia/Pacific	148,000	124,799	104,068	18.6%	19.9%
Latin America	24,336	21,366	20,065	13.9%	6.5%
Corporate	5,372	5,005	3,485	7.3%	43.6%
<b>Total</b>	<b>\$ 637,940</b>	<b>\$ 578,724</b>	<b>\$ 519,823</b>	<b>10.2%</b>	<b>11.3%</b>



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*Note: The fiscal 2005 and 2004 data has been reclassified to conform with the fiscal 2006 presentation. Europe includes sales to Middle East and Africa. Latin America includes sales to Mexico. Corporate consists of freight and other non-specific sales.*

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Gross profit by geographic area and percent of geographic sales are presented in the following table (in thousands):

	Fiscal Year Ended					
	June 3, 2006		May 28, 2005		May 29, 2004	
<b>Gross Profit</b>						
North America	\$ 84,626	26.5%	\$ 80,262	26.4%	\$ 71,763	26.0%
Europe	38,608	27.4%	34,345	27.7%	32,619	27.9%
Asia/Pacific	35,533	24.0%	29,691	23.8%	23,304	22.4%
Latin America	6,786	27.9%	5,879	27.5%	4,860	24.2%
Subtotal	165,553	26.2%	150,177	26.2%	132,546	25.7%
Corporate	(9,784)		(14,183)		(5,824)	
Total	\$ 155,769	24.4%	\$ 135,994	23.5%	\$ 126,722	24.4%

*Note: The fiscal 2005 and 2004 data has been reclassified to conform with the fiscal 2006 presentation. Europe includes sales and gross profit to Middle East and Africa. Latin America includes sales and gross profit to Mexico. Corporate consists of freight and other non-specific sales and gross profit.*

Net sales in North America increased 5.2% in fiscal 2006 to \$319.4 million as compared with \$303.7 million in fiscal 2005 with all four SBUs contributing to the growth. A majority of the sales increase in fiscal 2006 was due to increases in demand for wireless products in the U.S. and security systems in Canada. In addition, net sales in Canada experienced an overall gain of 12.2% to \$85.7 million in fiscal 2006 versus \$76.4 million in the prior fiscal year. An increase in net sales of higher margin products in the security, display and semiconductor fabrication markets resulted in gross margin improvement in North America to 26.5% for fiscal 2006 as compared with 26.4% in fiscal 2005.

Net sales in North America increased 10.2% to \$303.7 million in fiscal 2005 led by strong display systems and wireless demand in the U.S. and continued growth in security systems sales in Canada. Gross margins in North America improved 40 basis points in fiscal 2005 due to expanding margins in Canada for security systems and wireless sales.

Net sales in Europe grew 13.7% in fiscal 2006 to \$140.9 million from \$123.8 million in fiscal 2005 due to the incremental display systems products sales from the Kern acquisition and growth in wireless demand mainly in Israel, Spain and Germany. This increase was partially offset by lower sales of security systems and electron device products. Gross margin in Europe in fiscal 2006 decreased to 27.4% from 27.7% in fiscal 2006 and 2005, respectively, primarily due to lower gross margins on wireless products as compared to security systems and electron device products.

Net sales in Europe increased 6.1% to \$123.8 million in fiscal 2005 driven by continued wireless demand growth, particularly in the United Kingdom, France, and Israel. Gross margins in Europe decreased 20 basis points in fiscal 2005 due to a decline in high margin cathode ray tube sales in DSG.

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We experienced our eighth consecutive year of double-digit growth in Asia/Pacific as net sales increased 18.6% to \$148.0 million in fiscal 2006 led by continued strong demand for wireless products in the cellular infrastructure, semiconductor fabrication, and broadcasting markets. Net sales in Korea increased 35.4% to \$43.5 million mainly due to higher demand for network access products. Growth in broadcast product sales improved sales in Singapore by 29.3% to \$23.5 million. In addition, China experienced an increase in network access and power components contributing to a 7.2% sales improvement to \$43.3 million. Gross margins increased in all strategic business units in Asia/Pacific for fiscal 2006, as compared with last fiscal year due mainly to shifts in product mix focused on exclusive franchises, design registration programs, and the reduction of lower margin programs.

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In fiscal 2005 net sales in Asia/Pacific grew 19.9% to \$124.8 million led by China's on-going demand growth. Net sales in China increased 60% in fiscal 2005 to \$40.4 million, primarily due to OEM demand in the 2.5G infrastructure, avionics, and broadcasting markets. In fiscal 2005, our gross margins in Asia/Pacific improved 140 basis points due to expanding margins for wireless sales, particularly in Korea, partially offset by the large sales growth in China at lower margins.

Net sales in Latin America improved 13.9% to \$24.3 million in fiscal 2006 as compared with \$21.4 million in fiscal 2005. The net sales growth was mainly driven by an increase in sales of security products/systems integration and refocusing the EDG sales team after the realignment. Gross margin in Latin America increased to 27.9% in fiscal 2006 versus 27.5% in fiscal 2005 primarily due to higher gross margins from security systems and electron device products.

Net sales in Latin America grew 6.5% in fiscal 2005 to \$21.4 million as all four strategic business units increased sales. Gross margins in Latin America improved 330 basis points in fiscal 2005 as margins recovered for security systems and industrial power sales.

### ***Selling, General and Administrative Expenses***

SG&A expenses increased 7.6% to \$139.6 million in fiscal 2006 as compared with \$129.7 million in fiscal 2005. The increase in SG&A expenses was primarily due to the acquisition of Kern and severance expense. We recorded severance expense of \$4.0 million during fiscal 2006. During the third quarter of fiscal 2005, we recorded a restructuring charge, including severance and lease termination costs, of \$2.2 million. Total SG&A expenses in fiscal 2006 decreased to 21.9% of net sales compared with 22.4% in fiscal 2005.

SG&A expenses increased 20.2% in fiscal 2005 to \$129.7 million from \$108.0 million in fiscal 2004. We implemented restructuring actions at the end of the third quarter of fiscal 2005, which included changes in management and a reduction in workforce, to accelerate the alignment of operations with our engineered solutions strategy and improve operating efficiency. Terminations affected over 60 employees across various business functions, operating units and geographic regions. Increases in expenses included \$2.2 million of restructuring costs, \$8.5 million of payroll-related expenses, \$2.4 million of audit, tax, and Sarbanes-Oxley compliance fees, and incremental expenses related to bad debt, facility costs, and travel. The increase in payroll-related expenses, facility costs, and travel were mainly attributable to supporting the growth in sales.

### ***(Gain) Loss on Disposal of Assets***

On May 26, 2005, we completed the sale of approximately 205 acres of undeveloped real estate adjoining our headquarters in LaFox, Illinois. The sale resulted in a gain of \$9.9 million, before taxes, and was recorded in gain on disposal of assets in the Consolidated Statements of Operations in fiscal 2005.

### ***Other (Income) and Expense***

In fiscal 2006, other (income) expense increased to an expense of \$10.6 million from an expense of \$7.6 million in fiscal 2005. Other (income) expense included a foreign exchange loss of \$0.7 million during fiscal 2006 and a foreign exchange gain of \$0.9 million in fiscal 2005. The

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foreign exchange variance for fiscal 2006 was due to the strengthening of the U.S. dollar, primarily related to receivables due from foreign subsidiaries to the U.S. parent company and denominated in foreign currencies. Interest expense increased to \$9.8 million in fiscal 2006 from \$8.9 million in fiscal 2005 as a result of higher average balances on our credit agreement and an increase in interest rates. The weighted average interest rate increased to 7.42% in fiscal 2006 from 6.38% in fiscal 2005.

Interest expense decreased to \$8.9 million in fiscal 2005 from fiscal 2004 as a result of payments made to reduce debt from the proceeds received from an equity offering made in the first quarter of fiscal 2005 and elimination of a fixed rate swap, offset by interest on incremental borrowings to fund working capital

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requirements. The weighted average interest rate was 6.38% and 5.98% for fiscal 2005 and 2004, respectively. Fiscal 2005 included a foreign exchange gain of \$0.9 million and investment income of \$0.4 million compared to a foreign exchange loss of \$0.4 million and investment income of \$0.2 million in fiscal 2004.

***Income Tax Provision***

The effective income tax rates for fiscal 2006 and 2005 were 147.4% and 286.6%, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from our geographical distribution of taxable income or losses and valuation allowances related to net operating losses. For fiscal 2006, the tax benefit related to net operating losses was limited by the requirement for a valuation allowance of \$7.2 million, which increased the effective income tax rate by 129.9%. For fiscal 2005, the tax benefit related to net operating losses was limited by the requirement for a valuation allowance of \$16.7 million, which increased the effective income tax rate by 194.0%. In addition, deferred tax liabilities related to unrepatriated earnings previously considered permanently reinvested also increased the effective income tax rate in fiscal 2005 by 57.3%.

At June 3, 2006, domestic net operating loss carryforwards (NOL) amount to approximately \$21.3 million. These NOLs expire between 2024 and 2026. Foreign net operating loss carryforwards total approximately \$14.5 million with various or indefinite expiration dates. During fiscal 2005, due to changes in the level of certainty regarding realization, a valuation allowance of approximately \$15.9 million was established to offset certain domestic deferred tax assets, primarily inventory valuation, and domestic net operating loss carryforwards. In addition, we recorded an additional valuation allowance of approximately \$0.8 million relating to deferred tax assets from certain foreign subsidiaries. In fiscal 2006, we re-evaluated the realization of certain deferred tax assets, resulting in an additional valuation allowance of \$2.2 million. We believe that in order to reverse the recorded valuation allowance in any subsidiary, we would likely need to have positive cumulative earnings in that subsidiary for the three-year period preceding the year of the reversal. We also have an alternative minimum tax credit carryforward at June 3, 2006, in the amount of \$1.2 million that has an indefinite carryforward period.

Income taxes paid, including foreign estimated tax payments, were \$6.3 million, \$3.3 million, and \$1.7 million in fiscal 2006, 2005, and 2004, respectively.

At the end of fiscal 2004, all of the cumulative positive earnings of our foreign subsidiaries, amounting to \$35.1 million, were considered permanently reinvested pursuant to APB No. 23, *Accounting for Income Taxes-Special Areas*. As such, U.S. taxes were not provided on these amounts. In fiscal 2005, because of a strategic decision, we determined that approximately \$12.9 million of one of our foreign subsidiaries earnings could no longer be considered permanently reinvested as those earnings may be distributed in future years. Based on our potential future plans regarding this subsidiary, it was determined that these earnings would no longer meet the specific requirements for permanent reinvestment under APB No. 23. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income tax and foreign withholding taxes. As such, we established a deferred tax liability of approximately \$4.9 million during fiscal 2005. We revised our estimate of the deferred tax liability of \$4.9 million at June 3, 2006 based on changes in our potential future plans for this subsidiary during fiscal 2006. In fiscal 2006, we revised our strategy and as of June 3, 2006 again and concluded that the undistributed earnings of this subsidiary were considered permanently reinvested outside the United States. The reversal of the \$4.9 million deferred tax liability in fiscal 2006 resulted in an additional valuation allowance in the same amount and, therefore, did not effect the fiscal 2006 tax provision. Cumulative positive earnings of our foreign subsidiaries were still considered permanently reinvested pursuant to APB No. 23 and amounted to \$64.2 million at June 3, 2006. Due to various tax attributes that are continually changing, it is not possible to determine what, if any, tax liability might exist if such earnings were to be repatriated.

In May 2005, we were informed by one of our foreign subsidiaries that its records may not be adequate to support the taxable revenues and deductions included within tax returns previously filed for the tax years 2003 and 2004. At this time, we have not received notification from any

tax authority regarding this matter. We have increased our income tax reserve for this potential exposure.

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During fiscal 2005, the Canadian taxing authority proposed an income tax assessment for fiscal 1998 through fiscal 2002. We appealed the income tax assessment; however, we paid the entire tax liability in fiscal 2005 to the Canadian taxing authority to avoid additional interest and penalties if our appeal was denied. The payment was recorded as an increase to income tax provision in fiscal 2005. In May 2006, the appeal was settled in our favor. We will receive a refund of approximately \$1.0 million, which was recorded as a reduction to income tax provision during the fourth quarter of fiscal 2006.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase out ending December 31, 2006 of the existing extraterritorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with the international trade protocols by the European Union. We did not receive a tax benefit from the current ETI exclusion in fiscal 2006. When this benefit is fully phased out, it will have no impact on the rate.

Another provision of the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends-received deduction for certain dividends from controlled foreign corporations. The calculation of the deduction is subject to a number of limitations. This provision of the Act has no material impact on our operations for fiscal 2006 and is expected to have no material impact on our operations for fiscal 2007, as we do not intend at this time to repatriate earnings to the U.S. from foreign countries.

Future effective tax rates could be adversely affected by lower than anticipated earnings in countries where we have lower statutory rates, changes in the valuation of certain deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, we are subject to the examination of our income tax returns by U.S. and foreign tax authorities and regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of the provision for income taxes.

## ***Net Income and Per Share Data***

In fiscal 2006, we reported a net loss of \$2.6 million, or \$0.15 per diluted common share and \$0.14 per diluted Class B common share as compared with a net loss of \$16.0 million, or \$0.96 per diluted common share and \$0.87 per diluted Class B common share in fiscal 2005. In fiscal 2004, we reported net income of \$5.5 million, or \$0.38 per diluted common share and \$0.36 per diluted Class B common share.

## **Liquidity and Capital Resources**

We have financed our growth and cash needs largely through income from operations, borrowings under the revolving credit facilities, an equity offering, issuance of convertible senior subordinated notes, and sale of assets. Liquidity provided by operating activities is reduced by working capital requirements, debt service, capital expenditures, dividends, and business acquisitions. Liquidity provided by operating activities is increased by proceeds from borrowings and from the dispositions of businesses and assets.

Cash and cash equivalents were \$18,202 at September 2, 2006, as compared to \$17,010 at fiscal 2006 year end. Cash used in operating activities in the first quarter of fiscal 2007 was \$7,515 primarily due to higher inventories in addition to lower accounts payable and accrued liabilities. The increase in inventories was due to higher inventory stocking levels to support anticipated sales growth. Accounts payable balances decreased due to timing of payments for inventory. In addition, payments of interest on long-term debt and remittance of foreign sales and use taxes contributed to the utilization of cash in the first quarter of fiscal 2007. Cash provided by operating activities for the first quarter of fiscal



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2006 was \$4,800 due mainly to lower accounts receivable and higher accounts payable and accrued liabilities, offset by higher inventory levels.

Net cash used in investing activities of \$853 in the first quarter of fiscal 2007 was mainly due to capital expenditures during the first quarter of fiscal 2007 primarily related to information technology projects. Net cash used in investing activities of \$7,353 in the first quarter of fiscal 2006 was mainly a result of the acquisition of A.C.T. Kern GmbH & Co. KG (Kern) with a cash outlay of \$6,524, net of cash acquired, and capital expenditures of \$1,070.

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Net cash provided by financing activities in the first quarter of fiscal 2007 was \$9,451 primarily due to net debt borrowings of \$11,324, partially offset by dividend payments of \$687 and cash payments on early debt retirement in \$700. During the first quarter of fiscal 2006, net cash used in financing activities was \$2,118 primarily related to net payments of debt and dividends.

We maintain \$14,000 of the 8% notes in current portion of long-term debt at September 2, 2006. This current classification is due to us entering into two separate agreements in August 2006 with certain holders of our 8% notes to purchase \$14,000 of the 8% notes. As the 8% notes are subordinate to our existing credit agreement, we received a waiver from our lending group to permit the purchases. The purchases will be financed through additional borrowings under our credit agreement. In the first quarter of fiscal 2007, we recorded costs associated with the retirement of long-term debt of \$2,540 in connection with the purchases, which includes the write-off of previously capitalized deferred financing costs of \$625. On September 8, 2006, we purchased \$6,000 of the \$14,000 of the 8% notes. We expect to purchase the remaining \$8,000 of the \$14,000 of the 8% notes in December 2006.

In October 2004, we renewed our credit agreement with the current lending group in the amount of approximately \$109,000. On August 4, 2006, we amended our credit agreement and decreased the facility to approximately \$97,500 (the size of the credit line varies based on fluctuations in foreign currency exchange rates). The credit agreement expires in October 2009, and the outstanding balance at that time will become due. The portion of the credit line available for us to borrow is limited by the amount of collateral and certain covenants in the credit agreement. The credit agreement is principally secured by our trade receivables and inventory. The credit agreement bears interest at applicable LIBOR rates plus a margin, varying with certain financial performance criteria. At September 2, 2006, the applicable margin was 2.25%, \$68,429 was outstanding under the credit agreement, outstanding letters of credit were \$2,020, the unused line was \$27,050, and the available credit line was limited to \$1,237 due to covenants related to maximum permitted leverage ratios. The commitment fee related to the credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment. Our credit agreement consists of the following facilities as of September 2, 2006:

	<u>Capacity</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>
U.S. Facility	\$ 70,000	\$ 50,200	7.68%
Canada Facility	9,965	4,224	6.00%
UK Facility	8,571	8,457	7.16%
Euro Facility	6,407	3,844	5.36%
Japan Facility	2,556	1,704	2.38%
	<u>          </u>	<u>          </u>	
Total	\$ 97,499	\$ 68,429	7.25%
	<u>          </u>	<u>          </u>	

*Note: Due to maximum permitted leverage ratios, the amount of the unused line cannot be calculated on a facility-by-facility basis.*

On August 4, 2006, we executed an amendment to the credit agreement. The amendment (i) permitted the purchase of \$14,000 of the 8% notes; (ii) adjusted the minimum required fixed charge coverage ratio for the first quarter of fiscal 2007; (iii) adjusted the minimum tangible net worth requirement; (iv) permitted certain transactions contemplated by us; (v) eliminated our Sweden Facility; (vi) reduced our Canada Facility by approximately \$5,400; (vii) changed the definition of Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for covenant purposes; and (viii) provided that we maintain excess availability on the borrowing base of not less than \$10,000.

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Contractual obligations by expiration period as of June 3, 2006 are presented in the table below (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 Years	More than 5 years
Convertible notes <sup>(1)</sup>	\$ 69,683	\$ 14,000	\$	\$	\$ 55,683
Convertible notes interest <sup>(1)</sup>	24,068	4,783	8,686	8,686	1,913
Floating-rate multi-currency revolving credit agreement <sup>(2)</sup>	57,089			57,089	
Floating-rate multi-currency revolving credit agreement interest <sup>(2)</sup>	13,170	3,951	7,902	1,317	
Purchase obligations <sup>(3)</sup>	137,883	137,883			
Lease obligations <sup>(4)</sup>	18,673	6,263	6,166	2,850	3,394
Other	36	16	20		
<b>Total</b>	<b>\$ 320,602</b>	<b>\$ 166,896</b>	<b>\$ 22,774</b>	<b>\$ 69,942</b>	<b>\$ 60,990</b>

(1) Convertible notes consist of the notes, with principal of \$44.7 million due December 2011, and 8% notes, with principal of \$25.0 million due June 2011. Payments of \$14.0 million of 8% notes are included in amounts due less than one year.

(2) The credit agreement expires in October 2009 and bears interest at applicable LIBOR rates plus a 225 basis point margin. Interest in the table above is calculated using 6.92% interest rate and \$57.1 million principal amount as of June 3, 2006 for all periods presented.

(3) We have outstanding purchase obligations with vendors at the end of fiscal 2006 to meet operational requirements as part of the normal course of business.

(4) Lease obligations are related to certain warehouse and office facilities and office equipment under non-cancelable operating leases.

We believe that the existing sources of liquidity, including current cash, as well as cash provided by operating activities, supplemented as necessary with funds available under credit arrangements, will provide sufficient resources to meet known capital requirements and working capital needs for the fiscal year ended June 2, 2007.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowances for doubtful accounts, inventories, intangible assets, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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The policies discussed below are considered by management to be critical to understanding our financial position and results of operations. Their application involves more significant judgments and estimates in preparation of our consolidated financial statements. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

*Allowance for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The estimates are influenced by the

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following considerations: continuing credit evaluation of customers' financial conditions; aging of receivables, individually and in the aggregate; large number of customers which are widely dispersed across geographic areas; collectability and delinquency history by geographic area; and the fact that no single customer accounts for 10% or more of net sales. Material changes in one or more of these considerations may require adjustments to the allowance affecting net income and net carrying value of accounts receivable. At June 3, 2006, the allowance for doubtful accounts was \$2.1 million as compared to \$1.9 million at May 28, 2005.

*Impairment of Investments.* We hold a portfolio of investment securities and periodically assess its recoverability. In the event of a decline in fair value of an investment, the judgment is made whether the decline is other-than-temporary. Management's assessment as to the nature of a decline is largely based on the duration of that market decline, financial health of and specific prospects for the issuer, and our cash requirements and intent to hold the investment. If an investment is impaired and the decline in market value is considered to be other-than-temporary, an appropriate write-down is recorded. We recognized investment impairment in fiscal 2006, 2005, and 2004 of \$93, \$49, and \$226, respectively.

*Inventories.* We carry all our inventories at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories include material, labor, and overhead associated with such inventories. Substantially all inventories represent finished goods held for sale.

Provisions for obsolete or slow moving inventories are recorded based upon regular analysis of stock rotation, obsolescence, and assumptions about future demand and market conditions. If future demands, change in the industry, or market conditions differ from management's estimates, additional provisions may be necessary.

We recorded inventory obsolescence and overstock provisions of \$1.8 million, \$4.2 million, and \$2.2 million in fiscal 2006, 2005, and 2004, respectively, which was included in the cost of sales. The provisions were principally for obsolete and slow moving parts. The parts were written down to estimated realizable value.

Beginning in fiscal 2004, we implemented new policies and procedures to strengthen our inventory management process while continuing to invest in system technology to further enhance our inventory management tools. These policy and procedure changes included increased approval authorization levels for inventory purchases, quarterly quantitative and qualitative inventory aging analysis and review, changes in the budgeting process to establish targets and metrics that relate to our return on assets rather than only a revenue and profit expectation, and realignment of incentive programs in accordance with these targets and metrics. We are committed to inventory management as an ongoing process as the business evolves and technology changes.

*Long-Lived and Intangible Assets.* We periodically evaluate the recoverability of the carrying amounts of our long-lived assets, including software, property, plant and equipment. We assess in accordance with Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the possibility of long-lived assets being impaired when events trigger the likelihood.

Impairment is assessed when the undiscounted expected cash flows derived from an asset are less than its carrying amount. If impairment exists, the carrying value of the impaired asset is written down and impairment loss is recorded in operating results. In assessing the potential impairment of our goodwill and other intangible assets, we make significant estimates and assumptions regarding the discounted future cash flows to determine the fair value of the respective assets on an annual basis. These estimates and their related assumptions include, but are not limited to, projected future operating results, industry and economy trends, market discount rates, indirect expense allocations, and tax rates. If these estimates or assumptions change in the future as a result of changes in strategy, our profitability, or market conditions, among other factors, this could adversely affect future goodwill and other intangible assets valuations and result in additional impairment charges.

Effective June 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This statement changed the accounting for goodwill and indefinite-lived assets from an amortization approach to an impairment-only approach. We perform our impairment test as of the third quarter of each fiscal year. We did not find any indication that an impairment existed and, therefore, no impairment loss was recorded in fiscal 2006.

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*Warranties.* We offer warranties for specific products we manufacture. We also provide extended warranties for some products we sell that lengthen the period of coverage specified in the manufacturer's original warranty. Terms generally range from one to three years.

We estimate the cost to perform under our warranty obligation and recognize this estimated cost at the time of the related product sale. We report this expense as an element of cost of sales in our Consolidated Statement of Operations. Each quarter, we assess actual warranty costs incurred, on a product-by-product basis, as compared to our estimated obligation. The estimates with respect to new products are based generally on knowledge of the products and are extrapolated to reflect the extended warranty period, and are refined each quarter as better information with respect to warranty experience becomes known.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. The warranty reserves are determined based on known product failures, historical experience, and other currently available evidence.

*Income Taxes.* We recognize deferred tax assets and liabilities based on the differences between financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on a number of factors, including both positive and negative evidence, in determining the need for a valuation allowance. Those factors include historical taxable income or loss, projected future taxable income or loss, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. In circumstances where we or any of our affiliates have incurred three years of cumulative losses which constitute significant negative evidence, positive evidence of equal or greater significance is needed by us at a minimum to overcome that negative evidence before a tax benefit is recognized for deductible temporary differences and loss carryforwards. In evaluating the positive evidence available, expectations as to future taxable income would rarely be sufficient to overcome the negative evidence of recent cumulative losses, even if supported by detailed forecasts and projections. In order to reverse the recorded valuation allowance, we would likely need to have positive cumulative earnings for the three-year period preceding the year of the reversal. Therefore, our projections as to future earnings would not be used as an indicator in analyzing whether a valuation allowance established in a prior year can be removed or reduced.

At June 3, 2006 and May 28, 2005, our deferred tax assets related to tax carryforwards were \$13.6 million and \$15.1 million, respectively. The tax carryforwards are comprised of net operating loss carryforwards and other tax credit carryovers. A majority of the net operating losses and other tax credits can be carried forward for 20 years.

We have recorded valuation allowances for the majority of our federal deferred tax assets and loss carryforwards, and for tax loss carryforwards of certain non-U.S. subsidiaries. We believe that the deferred tax assets for the remaining tax carryforwards are considered more likely than not to be realizable based on estimates of future taxable income and the implementation of tax planning strategies.

## **New Accounting Pronouncements**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will become effective for us beginning in fiscal 2008. We are currently evaluating the impact of the adoption of FIN 48 on the financial statements.





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### **Risk Management and Market Sensitive Financial Instruments**

Our foreign denominated assets and liabilities are cash, accounts receivable, inventory, accounts payable, and intercompany receivables and payables, primarily in Canada, member countries of the European Union, Asia/Pacific and, to a lesser extent, Latin America. Tools that we may use to manage foreign exchange exposures include currency clauses in sales contracts, local debt to offset asset exposures and forward contracts to hedge significant transactions.

Had the U.S. dollar strengthened 10% against various foreign currencies, sales would have been lower by an estimated \$6,400 for the first quarter of fiscal 2007, and an estimated \$6,100 for the first quarter of fiscal 2006. Total assets would have declined by an estimated \$13,400 as of the quarter ended September 2, 2006 and an estimated \$12,800 as of the fiscal year ended June 3, 2006, while the total liabilities would have decreased by an estimated \$3,600 as of the quarter ended September 2, 2006 and an estimated \$3,500 as of the fiscal year ended June 3, 2006.

As discussed above, our debt financing expense, in part, varies with market rates exposing us to the market risk from changes in interest rates. Certain operations, assets, and liabilities are denominated in foreign currencies subjecting us to foreign currency exchange risk. In order to provide the user of these financial statements guidance regarding the magnitude of these risks, the Securities and Exchange Commission requires us to provide certain quantitative disclosures based upon hypothetical assumptions. Specifically, these disclosures require the calculation of the effect of a 10% increase in market interest rates and uniform 10% strengthening of the U.S. dollar against foreign currencies on the reported net earnings and financial position.

Under these assumptions, additional interest expense as the result of 10% higher market interest rates on our variable rate outstanding borrowings, tax effected, would have increased the net loss by an estimated \$300 in the first quarter of fiscal 2007 and decreased the net income by an estimated \$160 in the first quarter of fiscal 2006.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in interest rates and exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations.

For an additional description of our market risk, see Item 7A Quantitative and Qualitative Disclosures about Market Risk Risk Management and Market Sensitive Financial Instruments in our Annual Report on Form 10-K for the fiscal year ended June 3, 2006.

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**OUR BUSINESS**

**Our Company**

We are a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, security, and display systems markets. We are committed to a strategy of providing specialized technical expertise and value-added products, which we refer to as engineered solutions, in response to our customers' needs. These engineered solutions consist of:

products which we manufacture or modify;

products which are manufactured to our specifications by independent manufacturers under our own private labels; and

value we add through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for our customers' end products. We define design-in support as modification of components or identification of lower-cost product alternatives or complementary products.

Our products include RF and microwave components, power semiconductors, electron tubes, microwave generators, data display monitors, and electronic security products and systems. These products are used to control, switch or amplify electrical power or signals, or as display, recording or alarm devices in a variety of industrial, communication, and security applications.

Our broad array of technical services and products supports both our customers and vendors.

**Our Strategic Business Units**

We serve our customers through four strategic business units, each of which is focused on different end markets with distinct product and application needs. Our four strategic business units are:

RF, Wireless & Power Division (formerly RF & Wireless Communications Group);

Electron Device Group (formerly Industrial Power Group);

Security Systems Division/Burtek Systems; and

Display Systems Group.

Each strategic business unit has dedicated marketing, sales, product management, and purchasing functions to better serve its targeted markets. The strategic business units operate globally, serving North America, Europe, Asia/Pacific, and Latin America.

During the second quarter of fiscal 2006, we implemented a reorganization plan encompassing our RF & Wireless Communications Group and Industrial Power Group business units. Effective for the second quarter of fiscal 2006, the Industrial Power Group has been designated as the Electron Device Group and the RF & Wireless Communications Group has been designated as RF, Wireless & Power Division. The reorganization was implemented to increase efficiencies by integrating the Industrial Power Group's power conversion sales and product management into the RF & Wireless Communication Group's larger sales resources. In addition, we believe that the Electron Device Group will benefit from an increased focus on the high-margin tube business with a simplified global sales and product management structure to work more effectively with customers and vendors.

During the first quarter of fiscal 2007, we changed the name of our Security Systems Division (SSD) to Burtek Systems (SSD/Burtek) to take advantage of Burtek's positive brand recognition within the sound and security industry.

Selected financial data attributable to each strategic business unit and geographic data for fiscal 2006, 2005 and 2004 is set forth in Note M of the notes to our consolidated financial statements of our annual report on Form 10-K for the year ended June 3, 2006 included elsewhere in this prospectus.

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### **RF, Wireless & Power Division, formerly RF & Wireless Communications Group**

Our RF, Wireless & Power Division serves the global RF and wireless communications market, including infrastructure and wireless networks, as well as the fiber optics and industrial power conversion market. Our team of RF and wireless engineers assists customers in designing circuits, selecting cost effective components, planning reliable and timely supply, prototype testing, and assembly. The group offers our customers and vendors complete engineering and technical support from the design-in of RF, wireless and power components to the development of engineered solutions for their system requirements.

We expect continued growth in wireless applications as the demand for many types of wireless communication increases worldwide. We believe wireless networking and infrastructure products for a number of niche applications will require engineered solutions using the latest RF technology and electronic components, including:

*Wireless Networks* Wireless technologies used for short range interconnection, both within the home or office or last mile solutions from a neighborhood to the home.

*Wireless Infrastructure* Equipment required to support the transmission of RF signals.

*Power Conversion* High power applications such as power suppliers, welding, motor controls and converting AC/DC and DC/AC.

In addition to voice communication, we believe the rising demand for high-speed data transmission will result in major investments in both system upgrades and new systems to handle broader bandwidth.

In our RF, Wireless & Power Division, our team of engineers designs solutions for applications such as motor speed controls, industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. We build on our expertise in power conversion technology to provide engineered solutions to fit our customers' specifications using what we believe are the most competitive components from industry-leading vendors.

We support these growth opportunities by collaborating with many of the leading RF, wireless, and power component manufacturers. A key factor in our ability to maintain a strong relationship with our existing vendors and to attract new vendors is our ability to supply them with worldwide demand forecasts for their existing products as well as products they have in development. We have developed internal systems to capture forecasted product demand by potential design opportunity based on ongoing dialog between our sales team and our customers. We share this information with our manufacturing suppliers to help them predict near and long-term demand and product life cycles. We have global distribution agreements with such leading suppliers as ANADIGICS, Advanced Power Technologies, Aavid, Anaren, ATC, Cornell-Dubilier, Freescale, HUBER+SUHNER, International Rectifier, M/A-COM, Peregrine, Vishay, Wakefield, and WJ Communications. In addition, we have relationships with many niche RF, wireless, and power suppliers to allow us to serve as a comprehensive RF, wireless, and power resource.

We participate in most RF, wireless, and power applications and markets in the world, focusing on infrastructure rather than consumer-driven subscriber applications.

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The following is a description of our RF, Wireless & Power Division's major product areas:

*RF and Microwave Devices* a wide variety of components, such as RF transistors, mixers, switches, amplifiers, oscillators, and RF diodes, which are used in infrastructure, wireless networking, and other related markets, such as broadcast, cable TV, cellular and personal communications service telephony, satellite, wireless local area networks, and various other wireless applications, including In-home Amplifier, which helps increase the ability to send and receive cellular signals from the home.

*Interconnect Devices* passive components used to connect all types of electronic equipment including those employing RF technology.

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*Digital Broadcast* components and assemblies used in a broad range of applications in the digital broadcast market, including satellite, transmission, and RF components.

*Silicon Controlled Rectifiers, Heat Sink Assemblies and Power Semiconductor Modules* components used in many industrial control applications because of their ability to switch large amounts of power at high speeds. These silicon power devices are capable of operating at up to 4,000 volts at 2,000 amperes.

*High Voltage and Power Capacitors* devices used in industrial, avionics, medical and broadcast applications for filtering, high-current bypass, feed-through capacitance for harmonic attenuation, pulse shaping, grid and plate blocking, tuning of tank circuits, antenna coupling and energy discharge.

## **Electron Device Group, formerly Industrial Power Group**

Our Electron Device Group provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries. Our team of engineers designs solutions for applications such as industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. We build on our expertise in high power, high frequency vacuum devices to provide engineered solutions to fit our customers' specifications using what we believe are the most competitive components from industry-leading vendors.

This group serves the industrial market's need for both vacuum tube and semiconductor manufacturing equipment technologies. We provide replacement products for systems using electron tubes as well as design and assembly services for new systems employing semiconductor manufacturing equipment. Our customers' demand for higher power and shorter processing times increases the need for tube-based systems.

We represent leading manufacturers of electronic tubes and semiconductor equipment used in industrial power applications. Among the suppliers we support are Amperex, CPI, Eimac, General Electric, Jennings, Litton, Hitachi, NJRC, National and Draloric.

The following is a description of our Electron Device Group's major product areas:

*Power Amplifier/Oscillator Tubes* vacuum or gas-filled tubes used in applications where current or voltage amplification and/or oscillation is required. Applications include induction heating, diathermy equipment, communications, broadcast, and radar systems, and power supplies for voltage regulation or amplification.

*Microwave Generators* devices that incorporate magnetrons, which are high vacuum oscillator tubes used to generate energy at microwave frequencies. The pulsed magnetron is primarily used to generate high-energy microwave signals for radar applications. Magnetrons are also used in vulcanizing rubber, food processing, packaging, wood/glue drying, in the manufacture of wafers for the semiconductor industry and other industrial heating applications such as microwave ovens, and by the medical industry for sterilization and cancer therapy.

*Hydrogen Thyratrons* electron tubes capable of high speed and high voltage switching. They are used to control the power in laser and radar equipment and in linear accelerators for cancer treatment.

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*Thyratrons and Rectifiers* vacuum or gas-filled tubes used to control the flow of electrical current. Thyratrons are used to control ignitrons, electric motor speed controls, theatrical lighting, and machinery such as printing presses and various types of medical equipment. Rectifiers are used to restrict electric current flow to one direction in power supply applications.

*Ignitrons* mercury pool tubes used to control the flow of large amounts of electrical current. Their primary applications are in welding equipment, power conversion, fusion research, and power rectification equipment.

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### **Security Systems Division/Burtek Systems**

Our Security Systems Division/Burtek Systems is a global provider of closed circuit television, fire, burglary, access control, sound, and communication products and accessories for the residential, commercial, and government markets. We specialize in closed circuit television design-in support, offering extensive expertise with applications requiring digital technology. Our products are primarily used for security and access control purposes but are also utilized in industrial applications, mobile video, and traffic management.

The electronic security industry is rapidly transitioning from analog to digital imaging technology which is driving the convergence between security and IT. We are positioned to take advantage of this transition through our array of innovative products and solutions marketed under our own private label brands *National Electronics*, *Capture*<sup>®</sup>, *AudioTrak*<sup>®</sup>, and *Elite National Electronics*<sup>®</sup>. We also expect to gain additional market share by marketing ourselves as a value-added service provider to both our vendor and dealer partners. We continue to invest in people and tools that enable us to offer superior technical support in the most cost effective manner, particularly in the area of network convergence.

We support our customer base with products from more than 100 manufacturers including such well-known names as Aiphone, GE, Panasonic, Paradox, Pelco, Sanyo, and Verint, as well as our own private label brands, *National Electronics*, *Capture*<sup>®</sup>, *AudioTrak*<sup>®</sup> and *Elite National Electronics*<sup>®</sup>.

The following is a description of our Security Systems Division/Burtek Systems major product areas:

*Closed Circuit Television* products used in surveillance applications and for monitoring hazardous environments in the workplace. Products include cameras, lenses, cathode ray tube and liquid crystal display monitors, multiplexers, time lapse recorders, computerized digital video recorders, internet-based video servers, and accessories.

*Burglar and Fire Alarms* devices used to detect the presence of smoke, fire, or intrusion, and communicate information both to occupants and to a central monitoring station.

*Access Control* hardware-based and software-based solutions used to prevent, monitor and/or control access.

*Commercial, Residential, and Professional Sound Systems* sound reproduction components used in background music, paging, and telephonic interconnect systems, along with custom home audio equipment used for distributed music and home theater systems.

### **Display Systems Group**

Our Display Systems Group is a global provider of integrated display products and systems to the public information, financial, point-of-sale, and medical imaging markets. The group works with leading hardware vendors to offer the highest quality liquid crystal display, plasma, cathode ray tube, and customized display monitors. Our engineers design custom display solutions that include touch screens, protective panels, custom enclosures, specialized finishes, application specific software, and privately branded products.



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The medical imaging market is transitioning from film-based technology to digital technology. Our medical imaging hardware partnership program allows us to deliver integrated hardware and software solutions for this growing market by combining our hardware expertise in medical imaging engineered solutions with our software partners' expertise in picture archiving and communications systems. Through such collaborative arrangements, we are able to provide integrated imaging workstation systems to the end user.

Our legacy business of supplying replacement cathode ray tubes continues to be an important market. We believe we are successful in supplying replacement cathode ray tubes because of our extensive cross-reference capability. This database, coupled with custom mounting hardware installed by us, enables us to provide replacement tubes for more than 200,000 models.

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We have long-standing relationships with key manufacturers including 3M, Clinton Electronics, HP, IBM, Intel, LG, NEC Displays, Philips-FIMI, Planar Systems, Samsung, and Siemens Displays. We believe these relationships and our private label brands allow us to maintain a well-balanced and technologically advanced line of products.

The following is a description of our Display Systems Group's major product areas:

*Cathode Ray Tubes* vacuum tubes that convert an electrical signal into a visual image to display information on data display monitors. Cathode ray tubes are used in various environments, including hospitals, financial institutions, airports, and numerous other applications wherever large user groups share electronic data visually. This product line includes both monochrome and color tubes.

*Custom Displays* flat panel display monitors incorporating a liquid crystal as an alternative to the traditional cathode ray tube technology, typically a few inches in depth and ranging from 10 to 52 measured diagonally. These displays are usually integrated with touchscreen technology or special mounting configurations based on the customer's requirements.

*High Resolution Medical Displays* an integral component of picture archiving and communications systems, displays are used in diagnostic and non-diagnostic imaging to display the digital image generated from computed tomography, magnetic resonance imaging, radiography, and other digital modalities.

*Custom Systems* Custom server platforms for financial exchanges infrastructure/back office, small profile workstations for digital signage, flight information and kiosk applications, and imaging workstations for radiologists.

## **Business Strategies**

We are pursuing a number of strategies designed to enhance our business and, in particular, to increase sales of engineered solutions. Our strategies are to:

*Capitalize on Engineering and Manufacturing Expertise.* We believe that our success is largely attributable to our core engineering and manufacturing competency and skill in identifying cost-competitive solutions for our customers, and we believe that these factors will be significant to our future success. Historically, our primary business was the distribution and manufacture of electron tubes and we continue to be a major supplier of these products. This business enabled us to develop manufacturing and design engineering capabilities. Today, we use this expertise to identify engineered solutions for customers' applications not only in electron tube technology but also in new and growing end markets and product applications. We work closely with our customers' engineering departments that allow us to identify engineered solutions for a broad range of applications. We believe our customers use our engineering and manufacturing expertise as well as our in-depth knowledge of the components best suited to deliver a solution that meets their performance needs cost-effectively.

*Target Selected Niche Markets.* We focus on selected niche markets that demand a high level of specialized technical service, where price is not the primary competitive factor. These niche markets include wireless infrastructure, high power/high frequency power conversion, custom display, and digital imaging. In most cases, we do not compete against pure commodity distributors. We often function as an extension of our customers' and vendors' engineering teams. Frequently, our customers use our design and engineering expertise to provide a product solution that is not readily available from a traditional distributor. By utilizing our expertise, our customers and vendors can focus their engineering resources on more critical core design and development issues.

*Focus on Growth Markets.* We are focused on markets we believe have high growth potential and can benefit from our engineering and manufacturing expertise and from our strong vendor relationships. These markets are characterized by substantial end-market growth and rapid technological change. For example, the continuing demand for wireless communications is driving wireless application growth. Power conversion

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demand continues to grow due to increasing system complexity and the need for intelligent, efficient power management. We also see growth opportunities as security systems transition from analog to digital video recording and medical display systems transition from film to digital imaging.

*Leverage Our Existing Customer Base.* An important part of our growth is derived from offering new products to our existing customer base. We support the migration of our customers from electron tubes to newer solid-state technologies. Sales of products other than electron tubes represented approximately 84% of our sales in fiscal 2006 compared to 76% in fiscal 2000. In addition, our salespeople increased sales by selling products from all strategic business units to customers who currently may only purchase from one strategic business unit and by selling engineered solutions to customers who currently may only purchase standard components.

## **Growth and Profitability Strategies**

Although we have reported net losses of approximately \$12.9 million in fiscal 2002, \$26.7 million in fiscal 2003, \$16.0 million in fiscal 2005, and \$2.6 million in fiscal 2006, our long-range growth plan is centered around three distinct strategies by which we are seeking to maximize our overall profitability:

*Focus on Internal Growth.* We believe that, in most circumstances, internal growth provides the best means of expanding our business, both on a geographic and product line basis. We believe there is increased outsourcing of engineering as companies focus on their own core competencies, which we believe contributed to the increased demand for our engineered solutions. As technologies change, we plan to continue to capitalize on our customers' need for design engineering. In fiscal 2006, we made sales to approximately 34,000 customers. We have developed internal systems to capture forecasted product demand by potential design opportunity. This allows us to anticipate our customers' future requirements and identify new product opportunities. In addition, we share these future requirements with our manufacturing suppliers to help them predict near and long-term demand, technology trends, and product life cycles. Expansion of our product offerings is an ongoing program. In particular, the following areas have generated significant sales increases in recent years: RF amplifiers; interconnect and passive devices; silicon controlled rectifiers; custom and medical monitors; and digital closed circuit television security systems.

*Reduce Operating Costs Through Continuous Operational Improvements.* We constantly strive to reduce costs in our business through initiatives designed to improve our business processes. We continue to embark on programs to improve operating efficiencies and asset utilization, with an emphasis on inventory control. Our incentive programs were revised in fiscal 2004 to heighten our managers' commitment to these objectives. Since fiscal 2004, our strategic business units' goals are based on return on assets. In an effort to reduce our global operating costs related to logistics, selling, general, and administrative expenses and to better align our operating and tax structure on a global basis, we have now begun to implement a global restructuring plan. This plan is intended to reduce corporate and administrative expense, decrease the number of warehouses, and streamline the entire organization. During fiscal 2007, we will be implementing a more tax-effective supply chain structure for Europe and Asia/Pacific, restructuring our Latin American operations, and reducing the total workforce which includes eliminating and restructuring layers of management. Additional programs are ongoing, including a significant investment in enterprise resource planning software during fiscal 2007.

*Grow Through Acquisitions.* We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 37 companies or significant product lines and continue to evaluate acquisition opportunities on an ongoing basis. We seek acquisitions that provide product line growth opportunities by permitting us to leverage our existing customer base, expand the geographic coverage for our existing product offerings, or add incremental engineering resources/expertise. Our most significant acquisitions over the past five years include:

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Sangus Holdings AB (RF and microwave applications now part of our RF, Wireless & Power Division) in fiscal 2002;

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Evergreen Trading Company (power conversion applications now part of our Electron Device Group) in fiscal 2005;

A.C.T. Kern GmbH & Co. KG ( Kern ) (display technology now part of Display Systems Group) in fiscal 2006; and

Image Systems Corporation (display technology supplier now part of Display Systems Group) in fiscal 2006.

## **Products and Suppliers**

We purchase numerous products from various suppliers as noted above under Our Strategic Business Units. During fiscal 2006, we added the following suppliers: Econco, Mimix, Radiotronix, Teravicta, and United Chemi-con.

We evaluate our customers' needs and maintain sufficient inventories in an effort to ensure our customers a reliable source of supply. We generally anticipate holding approximately 90 days of inventory in the normal course of operations. This level of inventory is higher than some of our competitors due to the fact that we sell a number of products representing older, or trailing edge, technology that may not be available from other sources. The market for these trailing edge technology products is declining and as manufacturers for these products exit the business, we, at times, purchase a substantial portion of their remaining inventory. We also maintain an inventory of a broad range of products (which contributes to a higher total inventory) to be able to promptly service those customers who are buying product for replacement of components in equipment critical to preventing downtime of their operations. In other segments of our business, such as the RF, Wireless & Power Division, the market for our products is characterized by rapid change and obsolescence as a result of the development of new technologies, particularly in the semiconductor markets we serve.

We have written distribution agreements with many of our suppliers; however, a number of these agreements provide for nonexclusive distribution rights and often include territorial restrictions that limit the countries in which we can distribute the products. The agreements are generally short-term, subject to periodic renewal, and some contain provisions permitting termination by either party without cause upon relatively short notice. Although some of these agreements allow us to return inventory periodically, others do not, in which case we may have obsolete inventory which we cannot return to the supplier.

Our suppliers generally warrant the products we distribute and allow returns of defective products, including those returned to us by our customers. Except with respect to certain displays, we generally do not provide additional warranties on the products we sell. For information regarding our warranty reserves, see Note A of the notes to our consolidated financial statements elsewhere in this prospectus.

In addition to third party products, we distribute proprietary products principally under the trade names *A.C.T. Kern*, *Amperex*<sup>®</sup>, *AudioTrak*<sup>®</sup>, *Call Capture*, *Capture*<sup>®</sup>, *Cetron*<sup>®</sup>, *Elite National Electronics*<sup>®</sup>, *Image Systems*, *National*<sup>®</sup>, *National Electronics*<sup>®</sup>, *Pixelink* and *RF Gain*.

The proprietary products we currently sell, which we manufacture or have manufactured for us, include RF amplifiers, transmitters and pallet assemblies, thyratrons and rectifiers, power tubes, ignitrons, CW magnetron tubes, phototubes, spark gap tubes, microwave generators, custom RF matching networks, heatsinks, silicon controlled rectifier assemblies, large screen display monitors, liquid crystal display monitors, and computer workstations. The materials used in the manufacturing process consist of glass bulbs and tubing, nickel, stainless steel and other metals, plastic and metal bases, ceramics, and a wide variety of fabricated metal components. These materials generally are readily available, but some components may require long lead times for production and some materials are subject to shortages or price fluctuations based on supply

and demand.

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### **Sales and Marketing**

As of the end of fiscal 2006, we employed approximately 664 sales personnel worldwide. In addition, we have approximately 186 authorized representatives, who are not our employees, selling our products, primarily in regions where we do not have a direct sales presence. Many of our sales representatives focus on just one of our strategic business units, while others focus on all of our strategic business units within a particular geographic area. Our sales representatives are compensated in part on a salaried basis and in part on a commission basis.

We offer various credit terms to qualifying customers as well as prepayment, credit card, and cash on delivery terms. We establish credit limits prior to selling product to our customers and routinely review delinquent and aging accounts. We establish reserves for estimated credit losses in the normal course of business.

### **Distribution**

We maintain more than 835,000 part numbers in our product inventory database and we estimate more than 80% of orders received by 6:00 p.m. local time are shipped complete the same day. Customers can access our product inventory through electronic data interchange, either at our web site at [www.rell.com](http://www.rell.com), through our catalog at [www.catalog.rell.com](http://www.catalog.rell.com), or by telephone. Customer orders are processed by the regional sales offices and supported by one of our principal distribution facilities in LaFox, Illinois; Lincoln, England; Vancouver, British Columbia; or Singapore, Republic of Singapore and/or our 41 additional stocking locations throughout the world. We utilize a sophisticated data processing network that provides on-line, real-time interconnection of all sales offices and central distribution operations, 24 hours per day, seven days per week. Information on stock availability, cross-reference information, customers, and market analyses are instantly obtainable throughout the entire distribution network.

### **Employees**

As of June 3, 2006, we employed 1,268 individuals on a full-time basis. Of these, 614 were located in the United States and 654 were employed internationally. Our worldwide employee base included 664 in sales and product management, 150 in distribution support, 304 in administrative positions, and 150 in value-added and product manufacturing. All of our employees are non-union. We consider our relationships with our employees to be good.

### **Competition**

We believe engineering capability, exclusive vendor relationships, and product diversity create segmentation among our competitors. We believe that the key competitive factors in our markets include the ability to provide engineered solutions, inventory availability, product quality, reliable delivery, and price. We believe that, on a global basis, we are a significant provider of engineered solutions and products which utilize RF and power semiconductors and subassemblies, electron tubes, cathode ray tubes, custom and medical monitors, and security systems. In many instances, our competition is our customer base and their decision to make or buy, as well as the original equipment manufacturer for sales of replacement parts and system upgrades to service existing installed equipment. In addition, we compete worldwide with other general line distributors and other distributors of electronic components.



**Patents and Trademarks**

We hold or license certain manufacturing patents and trademark rights. Although our patents and trademarks have some value, they are not material to our success, which depends principally upon our core engineering capability, marketing technical support, product delivery, and the quality and economic value of our products.

**Properties**

We own our corporate facility and largest distribution center, which is located on approximately 96 acres in LaFox, Illinois and consists of approximately 242,000 square feet of manufacturing, warehouse, and office space.

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We also own a building containing approximately 45,000 square feet of warehouse space on 1.5 acres in Geneva, Illinois. As described in Note C in the notes to the consolidated financial statements for the year ended June 3, 2006, we entered into a contract to sell the building and land located in Geneva, Illinois for \$3,000,000. The contract is subject to a number of conditions, including inspections, environmental testing, and other customary conditions. The sale of the real estate and building is expected to close during the first or second quarter of fiscal 2007, however, we cannot give any assurance as to the actual timing or successful completion of the transaction.

We also maintain leased branch sales offices in or near major cities throughout the world, including 37 locations in North America, 22 in Europe, 15 in Asia/Pacific, and 5 in Latin America.

We consider our properties to be generally well maintained, in sound condition and repair, and adequate for our present needs.

**Legal Proceedings**

We are involved in several pending judicial proceedings concerning matters arising in the ordinary course of our business. While the outcome of litigation is subject to uncertainties, based on currently available information, we believe that, in the aggregate, the results of these proceedings will not have a material adverse effect on our financial condition.

**Table of Contents****MANAGEMENT****Executive Officers and Directors**

The following table sets forth certain information with respect to our executive officers and directors as of October 26, 2006:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Edward J. Richardson	64	Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer
Robert L. Prince	44	Executive Vice President, Worldwide Sales Electron Device Group
Gregory J. Peloquin	42	Executive Vice President and General Manager, RF, Wireless & Power Division
Murray J. Kennedy	45	Executive Vice President and General Manager, Electron Device Group
Wendy Diddell	41	Executive Vice President and General Manager, Security Systems Division/Burtek Systems
Larry Blaney	48	Executive Vice President and General Manager, Display Systems Group
Pierluigi Calderone	49	Vice President and Director, European Operations
Joseph C. Grill	62	Senior Vice President, Human Resources
Kathleen M. McNally	47	Senior Vice President, Marketing Operations and Customer Support
David J. DeNeve	38	Senior Vice President, Chief Financial Officer and Treasurer
David J. Gilmartin	44	Vice President, General Counsel and Secretary
Brad R. Knechtel	45	Vice President, Supply Chain Management
Arnold R. Allen	74	Director
Jacques Bouyer	78	Director
Scott Hodes	69	Director
Bruce W. Johnson	65	Director
Ad Ketelaars	49	Director
John R. Peterson	49	Director
Harold L. Purkey	62	Director
Samuel Rubinovitz	76	Director

*Edward J. Richardson* has been employed by us or our predecessor since 1961, holding several positions. He was Chairman of the Board, Chief Executive Officer and President from September 1989 until November 1996 when Bruce W. Johnson became President. Mr. Richardson continues to hold the offices of Chairman of the Board, Chief Executive Officer and, since April 2006, President and Chief Operating Officer.

*Robert L. Prince* has been Executive Vice President of Worldwide Sales Electron Device Group since January 2006. Prior to that, Mr. Prince had been Executive Vice President of Worldwide Sales since February 1998 and was Vice President of Worldwide Sales from November 1996 until February 1998. He was Vice President of Sales from November 1991 until November 1996 and held several other positions since joining us in November 1978.

*Gregory J. Peloquin* has been Executive Vice President and General Manager of the RF & Wireless Communications Group since January 2002. Prior to that, he was Vice President of the RF & Wireless Communications Group since November 1999 when he rejoined us. Mr. Peloquin first joined us in 1990 and held various positions in product management until 1997 when he left to join Motorola, Inc. as Director of Global Distribution for Wireless Infrastructure Division, which position he held until he rejoined us in 1999.

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*Murray J. Kennedy* has been Executive Vice President and General Manager of the Electron Device Group since January 2002. Prior to that, he was Vice President and General Manager of the Industrial Power Group since September 1999. Mr. Kennedy has held various industrial product management positions since joining us in March 1994. Prior thereto, he held positions with Litton Electron Devices Group and ITT Electron Devices Division.

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*Wendy Diddell* has been Executive Vice President and General Manager of the Security Systems Division/Burtek Systems since February 2006. Prior to that, Ms. Diddell had been Vice President and General Manager of the Security Systems Division since June 2004. Prior to that, she was employed as a Management Consultant for the Security Systems Division since July 2003. Prior thereto, Ms. Diddell was employed as the Senior Vice President of Sales and Marketing for Ultrak, Inc. since 1997, a global manufacturer of closed circuit television and access control systems for the commercial and government markets.

*Larry Blaney* has been Executive Vice President and General Manager of the Display Systems Group since February 2006. Prior to that, Mr. Blaney was Vice President and General Manager of the Display Systems Group since February 2005. Prior thereto, Mr. Blaney was Vice President of DSG Engineered Solutions since 2004 and Vice President of Sales and Marketing for DSG since joining us in 1998 in connection with our acquisition of his company, Eternal Graphics.

*Pierluigi Calderone* has been Vice President and Director of European Operations since March 1998. Mr. Calderone joined us in 1990 as District Sales Manager for Italy and served as Regional Sales Manager of Italy from February 1991 until March 1998.

*Joseph C. Grill* has served as an officer since 1987 and became an executive officer in the position of Vice President Corporate Administration in 1992. In 1994, his title was changed to Vice President, Human Resources, and in 1999 he was made Senior Vice President, Human Resources.

*Kathleen M. McNally* has been Senior Vice President of Marketing Operations and Customer Support since July 2000. Ms. McNally served as Marketing Services Manager from 1986 until 1989 and as Vice President and Corporate Officer of Marketing Operations from 1989 until 2000. She has held various positions within the marketing department since joining us in 1979.

*David J. DeNeve* has been Senior Vice President and Chief Financial Officer since joining us in June 2005. On April 4, 2006, he also assumed the position of Treasurer. From March 2004 until joining us, Mr. DeNeve was on a leave for personal reasons. Prior to that, Mr. DeNeve was employed by Material Sciences Corporation, a leading provider of material-based solutions for electronic, acoustical/thermal, and coated metal applications, as Vice President and Controller from April 2003 to March 2004, Vice President, Finance Engineered Materials and Solutions Group from November 2001 to April 2003, Vice President and Controller from March 2001 to November 2001, and Controller from October 1996 to February 2001.

*David J. Gilmartin* has been General Counsel, Vice President and Secretary since January 2006. Prior to that, Mr. Gilmartin had been Assistant General Counsel, Vice President and Assistant Secretary since July 2004. Prior to that, Mr. Gilmartin served as Vice President of Legal for SBI Group Inc. ( SBI ) from December 2002 to July 2004 and Deputy General Counsel to Lante Corporation from January 2002 until it was acquired by SBI in September 2002. Prior to that, Mr. Gilmartin served as Corporate Counsel to Alliant Foodservice, Inc. from May 1999 to January 2002. Prior to that, Mr. Gilmartin served in private law firm practice as an associate with Gardner, Carton & Douglas LLP and Lord, Bissell & Brook, LLP since becoming a member of the Illinois Bar in 1988.

*Brad R. Knechtel* has been Vice President of Supply Chain Management since July 2006. Prior to that, Mr. Knechtel was the Director of Supply Chain with Knowles Electronics since 2003 and before that Director of Eurasia Supply Chain for 3Com Corporation since 1995. In addition, he held various strategic planning, sourcing and purchasing, contract negotiation and management, and logistics positions with the United States Army.

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*Arnold R. Allen* has been a director since 1986. He joined us as our President and Chief Operating Officer in September 1985. He retired as President of ours in September 1989. Since his retirement, Mr. Allen has been a management consultant to us and presently provides management consulting services to us.

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*Jacques Bouyer* served as Chairman of the Board of Philips Components of Paris, France, which is engaged in the manufacture and sale of electronic components and is a subsidiary of N.V. Philips of The Netherlands, from April 1, 1990 until January 1, 1994 when he became honorary Chairman of the Board and a Director until December 31, 1995. Mr. Bouyer also was Vice Chairman of the BIPE Institute for Economic and Market Research from 1981 until 1997. He has been a self-employed consultant in business strategies and management for JBC Consult-Paris from January 1990 until December 2002. He is Chairman and has been a board member of Bethe1-Paris, a small internet start-up company, from July 2002.

*Scott Hodes* is a partner at the law firm of Bryan Cave LLP, which firm provides legal services to us. From 1992 through January 2004, Mr. Hodes was a partner with the law firm of McGuire Woods Ross & Hardies and its predecessor Ross & Hardies.

*Bruce W. Johnson* was President Emeritus from January 2006 to June 2006 and has been a Director since November 1996. From November 1996 until February 2006, Mr. Johnson was President and Chief Operating Officer. Prior thereto, from January 1992 until January 1996, he was President of Premier Industrial Corporation, a New York Stock Exchange listed company which was acquired by Farnell Ltd. in April 1996. He was Executive Vice President of Premier from February 1987 until January 1992. Premier is a full service business to business supplier of electronic components for industrial and consumer products, essential maintenance and repair products for industrial, commercial and institutional applications, and manufactures high-performance fire-fighting equipment.

*Ad Ketelaars* has been Chief Executive Officer of NEC Philips Unified Solutions (formerly Philips Business Communications) since March 2003. He was Vice President and Managing Director of Richardson Electronics Europe from 1993 until 1996. He has held several general management positions with companies such as Philips (Electronic Components), ITT (Cable TV), EnerTel (Telecom Operator), and Comsys (Voice Response Systems).

*John R. Peterson* is a Managing Director, the Head of Investment Banking and a member of the Board of Directors of Cleary Gull Inc., an investment banking and investment consulting firm he joined in March of 2002. Previously he was a Managing Director of Tucker Anthony Inc., and the Co-Head of its Tucker Anthony Sutro Capital Markets ( TASC ) division, which provided investment banking services to us, and a member of its Operating Committee until November 2001. For a brief time in 2001 and 2002, he was a Managing Director of Riverview Financial Group, LLC, until it was acquired by Cleary Gull Inc. He is a member of the Board of Directors of Krueger International, Inc., a privately held contract furniture manufacturer and Medem, Inc., a privately held healthcare information technology company.

*Harold L. Purkey* was President of Forum Capital Markets from May 1997 and Senior Managing Director of such company from May 1994, until it was acquired in 2000. Mr. Purkey was the Managing Director of First Union Securities, the successor to Forum Capital Markets, until his retirement on October 1, 2001. From July 1990 until February 1994, he was employed by Smith Barney Shearson, holding the position of Senior Managing Director and Manager of the Convertible Bond Department. He is a Director of Repton Electronics, Inc. and a member of its Audit Committee.

*Samuel Rubinovitz* was Executive Vice President of EG&G, Inc., a diversified manufacturer of instruments and components, from April 1989 until his retirement in January 1994. He is also a Director of LTX Corporation and a member of its Audit Committee; and a Director of Kronos, Inc. and a member of its Compensation Committee.

Executive officers are elected annually at the time of the annual stockholders meeting and serve until their respective resignation, death, or removal.





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**Directors Compensation**

Non-Employee Directors (defined as any Director who is not an officer or employee of ours or any of our subsidiaries or affiliates) receive a quarterly retainer of \$3,000 and receive a fee of \$500 for each Board or Committee meeting attended in person or by telephone (other than Audit Committee meetings, for which the fee is \$1,000), plus travel expenses. The Chairman of the Audit Committee receives an additional quarterly retainer of \$1,500.

In addition, upon election to the Board, each current Non-Employee Director (except Mr. Ketelaars and Mr. Allen, who were not eligible at the time each joined the Board) was granted an option to acquire 25,000 shares of Common Stock at an exercise price equal to the fair market value of Common Stock on the date of such grant. Further, pursuant to our 2006 Stock Option Plan for Non-Employee Directors ( 2006 Directors Plan ), any new Non-Employee Director upon being elected or appointed sha