

RICHARDSON ELECTRONICS LTD/DE  
Form S-1/A  
December 02, 2005  
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 2, 2005

Registration Statement No. 333-125254

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

WASHINGTON, D.C. 20549

**Amendment No. 2**

**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)

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

**40W267 Keslinger Road**

**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)

William G. Seils, Esq.

**Senior Vice President, General Counsel & Secretary**

**Richardson Electronics, Ltd.**

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**P.O. Box 393**

**LaFox, Illinois 60147-0393**

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

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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.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**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 DECEMBER 2, 2005

**\$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 or The Nasdaq National Market. Our common stock is quoted on The Nasdaq National Market under the symbol RELL . On December 1, 2005, the last reported sale price of our common stock was \$7.28 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 13 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 December 2, 2005.**

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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 two periods of more than 30 days in any 12-month period, or a period not to exceed an aggregate of 90 days in any 12-month 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% 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% Convertible Senior Subordinated Notes due

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2011; references to the 7/4% debentures mean our 7/4% Convertible Subordinated Debentures due December 15, 2006; references to the 8/4% debentures mean our 8/4% Convertible Senior Subordinated Debentures due June 15, 2006; and references to the 8% notes mean our 8% Convertible Senior Subordinated Notes due June 15, 2011.

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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 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 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.

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);



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Security Systems Division; 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, improving the geographic sales coverage and driving sales growth by leveraging the RF & Wireless Communication Group's larger sales resources. In

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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.

*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:

automotive telematics, which is the use of computers and telecommunications to provide wireless voice and data applications in motor vehicles;

RF identification, which is an electronic data collection and identification technology for a wide range of products to transfer data between a movable item and a reader to identify, track, or locate items; and

wireless local area networks.

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 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.

*Security Systems Division*

Our Security Systems Division 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 security systems industry is rapidly transitioning from analog to digital imaging technology. We are positioned to take advantage of this transition through our array of innovative products and solutions marketed

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under our *National Electronics*, *Capture*<sup>®</sup>, *AudioTrak*<sup>®</sup>, and *Elite National Electronics*<sup>®</sup> brands. We expect to gain additional market share by marketing ourselves as a value-added service provider and partnering with our other strategic business units to develop customized solutions as the transition to digital technology continues in the security industry.

### *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 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 products.

We have long-standing relationships with key manufacturers including 3M, Clinton Electronics, IBM, Intel, LG, NEC/Mitsubishi Displays, Panasonic Industrial, Philips-FIMI, Planar Systems and Siemens Displays. We believe these relationships 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 which allows 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 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.

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*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 83% of our sales in fiscal 2005 compared to 76% in fiscal 2000. In addition, our salespeople increase 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**

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 2005, we made sales to approximately 37,000 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. Recently, we have embarked on a vigorous program in an effort 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. Additional programs are ongoing, including a significant investment in enterprise resource planning software during fiscal 2006.

*Grow Through Acquisitions.* We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 36 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:

Celti Electronics (fiber optic communication - now part of our RF, Wireless & Power Division) in fiscal 2001;

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Aviv Electronics of Israel (design-in services for active and passive components now part of our RF, Wireless & Power Division) in fiscal 2001;

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

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

Effective June 1, 2005, we acquired A.C.T. Kern GmbH & Co. KG located in Germany (display technology now part of our Display Systems Group).

## **Recent Developments**

### *Sale of \$25 Million of 8% Notes*

On November 21, 2005, we sold \$25 million in aggregate principal amount of our 8% notes to qualified institutional buyers in a private placement. We have used the net proceeds from the sale of the 8% notes to repay amounts outstanding under our amended and restated credit agreement. We have agreed to redeem all of our outstanding 7¼% debentures on December 30, 2005 and 8¼% debentures on December 23, 2005 and intend to reborrow amounts under our amended and restated credit agreement to effect these redemptions.

The 8% notes bear interest at a rate of 8% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2006. The 8% notes mature on June 15, 2011. The 8% notes are unsecured and subordinated to our existing and future senior indebtedness and any secured indebtedness and rank on parity with the notes and all future senior subordinated indebtedness.

Under the terms of the 8% notes, holders may convert the 8% notes into shares of our common stock at any time prior to their maturity date. We may also elect to automatically convert the 8% notes if the trading price of our common stock exceeds 150% of the conversion price for at least 20 trading days during any 30 trading day period, subject to make-whole payments if we elect to convert the 8% notes prior to December 20, 2008. The initial conversion price is \$10.31 per share, which represents a 25% premium over the closing price of our stock on November 18, 2005. If fully converted, the 8% notes would convert into approximately 2,424,830 shares of our common stock. The conversion price is subject to adjustment in certain circumstances.

The 8% notes are fully redeemable by us at any time after December 20, 2008 at 100% of the principal amount plus accrued and unpaid interest. The 8% notes are also redeemable at the option of the holders upon a change of control of Richardson, termination of trading of our common stock and in certain other circumstances. We have agreed to register the resale of the 8% notes and common stock issuable upon conversion of the 8% notes with the Securities and Exchange Commission. See Description of Certain Other Indebtedness 8% Notes.

### *Identification of Material Weaknesses in Internal Control over Financial Reporting*

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Management conducted an assessment of the effectiveness of our internal control over financial reporting as of May 28, 2005 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control Integrated Framework*. Management identified the following material weaknesses in our internal control over financial reporting as of May 28, 2005:

*Deficiencies in our control environment.* We did not maintain effective company-level controls as defined in the *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission.



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*Inadequate controls associated with the accounting for income taxes.* We did not employ personnel with the appropriate level of skill and experience to prepare, document, and review our accounting for income taxes.

*Inadequate financial statement preparation and review procedures.* We did not maintain adequate policies and procedures, or employ sufficiently experienced personnel, to ensure that accurate and reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis.

*Deficiency related to the application of accounting literature.* We did not maintain adequate policies and procedures, or employ sufficiently experienced personnel, to ensure appropriate application of Financial Accounting Standards Board Statement (SFAS) No. 52, *Foreign Currency Translation*.

As a result of the aforementioned material weaknesses, we concluded that we did not maintain effective internal control over financial reporting, and we did not have effective disclosure controls and procedures as of May 28, 2005.

The following were changes in our internal control over financial reporting that occurred during the first quarter of fiscal 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In June 2005, we hired a Director of Tax to increase our focus on processes and procedures associated with accounting for income taxes;

We developed a program to provide training for accounting personnel in our foreign subsidiaries;

We enhanced our account reconciliation process to ensure that accounts are being reconciled on a timely basis, the reconciliations are independently reviewed, and any reconciling items are cleared on a timely basis;

We developed a plan to strengthen our procedures regarding the review and approval of journal entries through system automation;

We implemented formal procedures for financial statement variance analysis and balance sheet reconciliations. The monthly closing schedule is formally communicated to all subsidiaries; and

We improved documentation of management review and reconciliation performance through policies, education and re-enforcement, a listing of employees who reconcile and approve balance sheet account reconciliations, and the implementation of key financial manager checklists.

In order to remediate the material weaknesses identified in internal control over financial reporting and ensure the integrity of our financial reporting processes, we have implemented or are in the process of implementing the measures described above, as well as the following additional actions:

We have engaged outside tax professionals to provide global compliance and reporting services to ensure that we have appropriate resources to conduct timely reviews and evaluations of our current and deferred tax provisions, deferred tax assets and liabilities, and related complex tax issues;

We trained accounting personnel in our European subsidiaries and will continue training our other foreign subsidiaries throughout fiscal 2006;

We have developed a policy related to controls over end-user computing; and

We have hired a Director of Internal Audit to assist us in our ongoing evaluation and monitoring of internal control over financial reporting.

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In addition, we continue to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting, and internal control over financial reporting and the importance of identifying areas for improvement and to create and implement new policies and procedures where material weaknesses or significant deficiencies exist. Furthermore, in an effort to improve internal control over financial reporting, we have hired additional accounting expertise and have continued our use of external resources.

See Risk Factors Risks Related to Our Business If we do not maintain effective internal control over financial reporting, we could be unable to provide timely and reliable financial information and Experts.

### *Engagement of Ernst & Young LLP as Independent Registered Public Accounting Firm*

On August 29, 2005, we, with the approval of our audit committee, notified Ernst & Young LLP ( E&Y ) of its selection as our independent registered public accounting firm for the fiscal year ending June 3, 2006. E&Y 's engagement became effective on September 12, 2005, coincident with the completion of E&Y 's client acceptance procedures and its acceptance of the engagement.

During each of our two most recent fiscal years and through the date of the report on Form 8-K filed on September 14, 2005 reporting the engagement of E&Y, we did not consult E&Y with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or other matters as set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

E&Y previously served as our auditors from December 1981 until August 21, 2003, when KPMG LLP was engaged. As previously reported on Forms 10-K/A filed on May 20, 2005 and January 30, 2004, we restated our fiscal 2003 and 2002 financial statements that previously had been audited by E&Y. Accordingly, during our 2004 and 2005 fiscal years, E&Y performed audit procedures and audit-related discussions with us and KPMG regarding these restatements.

### *Reorganization of RFWC and IPG*

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 will be designated as the Electron Device Group and the RF & Wireless Communications Group will be 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, improving the geographic sales coverage and driving sales growth by leveraging 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.

### *Noncompliance with Loan Covenant*

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At September 3, 2005, we were not in compliance with our amended and restated 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 amended and restated 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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*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 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.



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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 and structurally subordinated to the indebtedness and other liabilities of our subsidiaries.
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 National 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 13 for a discussion of certain factors that you should consider when evaluating an investment in the notes and the underlying common stock.

**Table of Contents****Summary Selected Consolidated Financial Information**

The following table contains summary selected consolidated financial information as of and for the fiscal years ended May 31, 2003, May 29, 2004 and May 28, 2005 and as of and for the three months ended August 28, 2004 and September 3, 2005. The summary selected consolidated financial information as of May 29, 2004 and May 28, 2005 and for the fiscal years ended May 31, 2003, May 29, 2004 and May 28, 2005, are derived from our audited financial statements contained elsewhere in this prospectus. The summary selected consolidated financial data as of and for the three months ended August 28, 2004 and September 3, 2005 are derived from our unaudited financial statements contained elsewhere in this prospectus and, in our opinion, reflect all adjustments, which are normal recurring adjustments, necessary for a fair presentation. Our results of operations for the three months ended September 3, 2005 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 31, 2003 <sup>(2)</sup>	May 29, 2004 <sup>(3)</sup>	May 28, 2005 <sup>(4)</sup>	August 28, 2004	September 3, 2005
	(In thousands, except per share amounts)				
	(Unaudited)				
<b>Statement of Operations Data:</b>					
Net sales <sup>(5)</sup>	\$ 464,381	\$ 519,823	\$ 578,724	\$ 138,447	\$ 158,145
Cost of products sold	365,427	392,117	441,817	104,918	119,329
Gross margin	98,954	127,706	136,907	33,529	38,816
Selling, general and administrative expenses <sup>(5)</sup>	100,613	108,299	128,733	29,216	33,067
(Gain) loss on disposal of assets <sup>(6)</sup>		579	(9,918)	(10)	(140)
Other expense, net	9,700	10,258	7,538	3,195	2,120
Income (loss) before income taxes and cumulative effect of accounting change	(11,359)	8,570	10,554	1,128	3,769
Income tax provision (benefit)	(2,370)	2,537	21,865	321	2,207
Income (loss) before cumulative effect of accounting change	(8,989)	6,033	(11,311)	807	1,562
Cumulative effect of accounting change, net of tax <sup>(7)</sup>	(17,862)				
Net income (loss)	\$ (26,851)	\$ 6,033	\$ (11,311)	\$ 807	\$ 1,562
Income (loss) per share basic:					
Before cumulative effect of accounting change	\$ (0.65)	\$ 0.43	\$ (0.67)	\$ 0.05	\$ 0.09
Cumulative effect of accounting change, net of taxes	(1.29)				
Net income (loss) per share basic	\$ (1.94)	\$ 0.43	\$ (0.67)	\$ 0.05	\$ 0.09
Income (loss) per share diluted:					
Before cumulative effect of accounting change	\$ (0.65)	\$ 0.42	\$ (0.67)	\$ 0.05	\$ 0.09
Cumulative effect of accounting change, net of taxes	(1.29)				
Net income (loss) per share diluted	\$ (1.94)	\$ 0.42	\$ (0.67)	\$ 0.05	\$ 0.09



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Dividends per common share <sup>(8)</sup>	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.04	\$ 0.04
Weighted-average number of common shares outstanding: <sup>(9)</sup>					
Basic	13,809	14,040	16,942	15,872	17,384
Diluted	13,809	14,418	16,942	16,124	17,488
<b>Other Data:</b>					
Interest expense	\$ 10,352	\$ 10,257	\$ 8,903	\$ 2,257	\$ 2,321
Investment income	124	227	388		108
Depreciation & amortization	5,364	5,231	5,355	1,347	1,482
Capital expenditures	6,125	5,434	7,086	2,282	1,069

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	As of <sup>(1)</sup>			As of	
	May 31, 2003	May 29, 2004	May 28, 2005	August 28, 2004	September 3, 2005
	(In thousands, unless otherwise stated)				
	(Unaudited)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 16,874	\$ 16,927	\$ 24,530	\$ 12,758	\$ 20,285
Working capital	179,303	174,369	159,326	179,897	156,023
Property, plant and equipment, net	31,088	30,589	31,821	31,651	31,597
Total assets	267,408	282,945	287,818	290,216	300,061
Current maturities of long-term debt	46	4,027	22,305	3,867	23,451
Long-term debt	138,396	133,813	98,028	115,329	99,046
Stockholders' equity	78,821	88,167	104,048	117,078	106,889

- (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 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.
- (3) 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.
- (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 \$13.1 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$12.3 million) and outside the United States (\$0.8 million).
- (5) We reclassified customer discounts from selling, general and administrative expenses to net sales for fiscal 2004 and 2003 to conform to the fiscal 2005 presentation.
- (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) 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.
- (8) The dividend per class B common share was 90% of the dividend per common share.
- (9) The weighted-average number of common shares outstanding includes 3,207, 3,168 and 3,120 class B common shares for the fiscal years ended May 31, 2003, May 29, 2004, and May 28, 2005 respectively.

**Table of Contents****Ratio of Earnings to Fixed Charges**

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>					For the Three Months Ended	
	June 2, 2001	June 1, 2002 <sup>(2)</sup>	May 31, 2003 <sup>(3)</sup>	May 29, 2004	May 28, 2005 <sup>(4)</sup>	August 28, 2004	September 3, 2005
	(In thousands, unless otherwise stated)						
	(Unaudited)					(Unaudited)	
Fixed charges:							
Interest expense	\$ 11,146	\$ 12,386	\$ 10,352	\$ 10,257	\$ 8,903	\$ 2,257	\$ 2,321
Estimate of the interest within rental expense	1,052	1,101	1,222	1,155	1,389	303	347
<b>Total fixed charges</b>	<b>12,198</b>	<b>13,487</b>	<b>11,574</b>	<b>11,412</b>	<b>10,292</b>	<b>2,560</b>	<b>2,668</b>
Earnings:							
Income (loss) before cumulative effect of accounting change	16,245	(11,331)	(8,989)	6,033	(11,311)	807	1,562
Add fixed charges	12,198	13,487	11,574	11,412	10,292	2,560	2,668
<b>Total</b>	<b>\$ 28,443</b>	<b>\$ 2,156</b>	<b>\$ 2,585</b>	<b>\$ 17,445</b>	<b>\$ (1,019)</b>	<b>\$ 3,367</b>	<b>\$ 4,230</b>
Ratio of earnings to fixed charges	2.3	(5)	(5)	1.5	(5)	1.3	1.6
Dollar amount of the deficiency	\$	\$ 11,331	\$ 8,989	\$	\$ 11,311	\$	\$

(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 \$13.1 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$12.3 million) and outside the United States (\$0.8 million).

(5) Due to losses in fiscal 2002, fiscal 2003, and fiscal 2005, 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 \$11.3 million in fiscal 2002, \$26.9 million in fiscal 2003, and \$11.3 million in fiscal 2005 and we cannot assure you 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 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 industrywide 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, incremental inventory write-down charges of \$0.9 million were recorded during fiscal 2005 when we implemented restructuring actions and certain product lines were discontinued. We cannot assure you that we will not incur such

charges 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 Summary Recent Developments Identification of Material Weaknesses in Internal Control over Financial Reporting, we had discovered deficiencies, including material weaknesses, in our internal control over financial reporting. While we are taking immediate steps to correct our internal control weaknesses, the material weaknesses that have been discovered will not be considered remediated until the new

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and improved internal controls are in place for a period of time, are tested and it is concluded that such new and improved internal controls are operating effectively. Pending the successful completion of such testing, we will perform mitigating procedures relating to our internal control weaknesses. If we fail to remediate any material weaknesses, we could be unable to provide timely and reliable financial information, which 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.

**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.**

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.

**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. 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.

**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 3, 2005, our total debt was approximately \$122.5 million, including our outstanding convertible debentures and convertible notes. On November 21, 2005, we sold \$25 million in aggregate principal amount of 8% notes. We have used the net proceeds from the sale of the 8% notes to repay amounts outstanding under our amended and restated credit agreement and intend to reborrow amounts under our amended and restated credit agreement to redeem all of our outstanding 7 1/4% debentures and 8 1/4% debentures. We have incurred and may 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 3, 2006, we cannot assure you 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

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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; and

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 3, 2005, our total debt was approximately \$122.5 million, resulting in a debt-to-equity ratio of 115%, and primarily consisted of:

\$4.8 million aggregate principal amount of our 7<sup>1/4</sup>% debentures, which bear interest at a rate of 7<sup>1/4</sup>% per year payable on June 15 and December 15 and mature on December 15, 2006 (our amended and restated credit agreement requires refinancing by June 10, 2006);

\$17.5 million aggregate principal amount of our 8<sup>1/4</sup>% debentures, which bear interest at a rate of 8<sup>1/4</sup>% per year payable on June 15 and December 15 and mature on June 15, 2006 (our amended and restated credit agreement requires refinancing by June 10, 2006);

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

\$54.3 million principal amount of indebtedness under our amended and restated credit agreement, which matures 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 4.76% at September 3, 2005.

The debt-to-equity ratio has been calculated based on our balance sheet dated September 3, 2005.

On November 21, 2005, we sold \$25 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.

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. Pursuant to the requirements of our amended and restated credit agreement, the remaining \$22.3 million aggregate principal amount of the 8<sup>1/4</sup>% debentures and 7<sup>1/4</sup>% debentures must be refinanced in June 2006. We intend to redeem the 7<sup>1/4</sup>% debentures and 8<sup>1/4</sup>% debentures prior to January 1, 2006, with borrowings under our amended and restated credit agreement, but cannot assure you that the funds will be available to us under the amended and restated credit agreement at that time.



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.

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### **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 Mr. Richardson, our chairman of the board and chief executive officer, or Mr. Johnson, our president and chief operating 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 you that we will be successful in retaining or attracting such persons. The failure to attract and retain qualified personnel could significantly harm our operations.

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

Our amended and restated 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 amended and restated credit agreement. The amended and restated 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 debentures and notes contain covenants that limit, among other things, our ability to pay dividends or make other payments in respect of our shares of common stock and Class B common stock, to merge or consolidate with another entity and to incur additional indebtedness. If we fail to comply with the obligations in the amended and restated 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 amended and restated credit agreement for the quarter ended May 28, 2005 and the quarter ended September 3, 2005, and may not be able to comply with these financial covenants in the future.**

For the quarter ended May 28, 2005, we were not in compliance with our amended and restated 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 amended and restated 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.

For the quarter ended September 3, 2005, we were not in compliance with our amended and restated 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 amended and restated credit agreement. The amendment changed the minimum tangible net worth requirement to adjust for the goodwill associated with the Kern acquisition. However, in the future we may not be able to comply with the fixed charge coverage ratio, or any other financial covenants. Our ability to comply with these provisions of our amended and restated credit agreement may be affected by changes in the economic or business conditions or other events beyond our control.

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 our amended and restated credit agreement and our lenders may declare a default and cause all of our outstanding indebtedness under our amended and restated credit agreement to become immediately due and payable. If we are unable to repay any borrowings when due, the lenders under our amended and restated credit agreement could proceed against their collateral, which

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includes most of the assets we own. In addition, any default under our amended and restated 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 amended and restated credit agreement and our other debt instruments is accelerated, we may not have sufficient assets to repay amounts due under our amended and restated credit agreement or indebtedness under our other debt instruments. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Description of Certain Other Indebtedness Amended and Restated Revolving Credit Agreement.

**Recent changes in accounting standards regarding stock option plans 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 for fiscal years beginning after June 15, 2005. As a result of FAS 123(R), we and other companies are 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 these grants, which would negatively impact our results of operations. For example, pro forma for the application of FAS 123(R), our recorded net loss of \$11.3 million in fiscal 2005 would have increased by \$1.4 million, to a net loss of \$12.7 million, and our recorded net income of \$6.0 million in fiscal 2004 would have decreased by \$1.0 million, to net income of \$5.0 million. 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 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.

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

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One of our growth strategies is to increase our sales and expand our markets through acquisitions. Since 1980, we have acquired 36 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, our 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 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.

### **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. We cannot assure you that we will not incur further charges for restructuring as we continue to seek cost reduction initiatives. Alternatively, we cannot assure you that we will be able to continue to reduce our costs.

### **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 2005 were Communications & Power Industries, Inc., Covimag S.A., New Japan Radio Co. Ltd., Jennings Technology, and Draloric. These suppliers accounted for approximately 60% of the overall Electron Device Group purchases in fiscal 2005. 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.

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

In fiscal 2005, approximately 58.8% of our sales were made outside the U.S. and 24.9% 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 solely within the United States, 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.

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

### **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.

### **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 assure you 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.

### **We may have underpaid taxes in foreign countries where we have operations.**

We have been informed by one of our foreign subsidiaries that its records may not be adequate to support the taxable revenues and deductions included within income tax returns previously filed. At this time, we have not received notification from any tax authority regarding this matter. We will continue to investigate this matter and take the appropriate actions necessary to minimize any potential liability. As of December 1, 2005, we have not developed or obtained specific and definitive information sufficient to reasonably confirm the existence of a tax liability, determined a reasonable range of a potential liability, or otherwise evaluated any exposure to us. Although it is difficult to determine the ultimate exposure due to the lack of sufficient information, an unfavorable outcome may be material to the consolidated financial statements.

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

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



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The notes are subordinate to amounts outstanding under our amended and restated credit agreement. As of September 3, 2005, the aggregate amount of our senior indebtedness was \$54,377,362. 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 3, 2005, our subsidiaries had \$21,427,878 of indebtedness, excluding indebtedness that is also Senior Indebtedness (as defined in Description of the Notes Subordination ).

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**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 amended and restated 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 amended and restated 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 amended and restated credit agreement.

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

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

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 amended and restated credit agreement, resulting in an acceleration of the repayment obligations for amounts borrowed under that agreement. If an acceleration of the amended and restated 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 amended and restated 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.

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**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 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.

### **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 99.6% of the outstanding Class B common stock as of August 23, 2005. Because of its voting power, the Class B common stock controls 68.4% 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 3, 2005, we had 14,391,621 authorized but unissued shares of common stock and 1,328,961 shares of treasury stock.

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.

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At September 3, 2005, we had a total of 6,242,941 shares of common stock reserved for issuance. These reserved shares included 2,361,550 shares reserved for issuance under our existing stock incentive plans, including 1,718,686 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of \$9.49 per share; 199,815 shares reserved for issuance under our employee stock purchase plan; 1,199,187 shares reserved for issuance upon conversion of the 7 1/4% debentures, which currently have a conversion price of \$21.14 per share, and the 8 1/4% debentures, which currently have a conversion price of \$18.00 per share; 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 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, 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 National Market. During the twelve months ended November 30, 2005, the average daily trading volume for our common stock as reported by The Nasdaq National Market was 41,988 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 amended and restated credit agreement and the indentures governing our outstanding 7 1/4% debentures and 8 1/4% debentures contain restrictions on the payment of cash dividends and the indenture governing the 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 expect, estimate, anticipate, predict, believe 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 National 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 National 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 (through December 1, 2005)	\$ 8.50	\$ 6.78

On December 1, 2005, the last reported sale price of our common stock on The Nasdaq National Market was \$7.28 per share. As of December 1, 2005 there were approximately 902 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.

Pursuant to the indentures governing the old debentures, we are prohibited from paying a dividend if we are in default under either of these indentures or if the payment of a dividend would exceed the sum of our consolidated net income since May 31, 1996 plus the net proceeds from the sale of shares of our common stock and indebtedness which has been converted into shares of our common stock since May 31, 1996 plus

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\$30.0 million in the case of the indenture for our 8 <sup>1</sup>/<sub>4</sub>% debentures and \$20.0 million in the case of the indenture for our 7 <sup>1</sup>/<sub>4</sub>% debentures. Pursuant to our amended and restated 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 amended and restated credit agreement prohibits our subsidiaries, other than wholly owned subsidiaries, from paying dividends. Pursuant to the indenture that governs the notes, and the 8% notes, the conversion price of the 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 2, 2001, June 1, 2002, May 31, 2003, May 29, 2004 and May 28, 2005 and as of and for the three months ended August 28, 2004 and September 3, 2005. The selected consolidated financial data as of May 29, 2004 and May 28, 2005, and for the fiscal years ended May 31, 2003, May 29, 2004 and May 28, 2005, are derived from our audited consolidated financial statements contained elsewhere in this prospectus. The summary selected consolidated financial data as of and for the three months ended August 28, 2004 and September 3, 2005 are derived from our unaudited financial statements contained elsewhere in this prospectus and, in our opinion, reflect all adjustments, which are normal recurring adjustments, necessary for a fair presentation. Our results of operations for the three months ended September 3, 2005 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 2, 2001	June 1, 2002 <sup>(2)</sup>	May 31, 2003 <sup>(3)</sup>	May 29, 2004 <sup>(4)</sup>	May 28, 2005 <sup>(5)</sup>	August 28, 2004	September 3, 2005
	(In thousands, except per share amounts)						
	(Unaudited)			(Unaudited)			
<b>Statement of Operations Data:</b>							
Net sales <sup>(6)</sup>	\$ 502,197	\$ 443,415	\$ 464,381	\$ 519,823	\$ 578,724	\$ 138,447	\$ 158,145
Costs of products sold	370,819	349,326	365,427	392,117	441,817	104,918	119,329
Gross margin	131,378	94,089	98,954	127,706	136,907	33,529	38,816
Selling, general and administrative expenses <sup>(6)</sup>	94,272	98,993	100,613	108,299	128,733	29,216	33,067
(Gain) loss on disposal of assets <sup>(7)</sup>				579	(9,918)	(10)	(140)
Other expense, net	13,042	12,695	9,700	10,258	7,538	3,195	2,120
Income (loss) before income taxes and cumulative effect of accounting change	24,064	(17,599)	(11,359)	8,570	10,554	1,128	3,769
Income tax provision (benefit) <sup>(4)</sup>	7,819	(6,268)	(2,370)	2,537	21,865	321	2,207
Income (loss) before cumulative effect of accounting change	16,245	(11,331)	(8,989)	6,033	(11,311)	807	1,562
Cumulative effect of accounting change, net of tax <sup>(8)</sup>			(17,862)				
Net income (loss)	\$ 16,245	\$ (11,331)	\$ (26,851)	\$ 6,033	\$ (11,311)	\$ 807	\$ 1,562
Income (loss) per share basic:							
Before cumulative effect of accounting change	\$ 1.22	\$ (0.83)	\$ (0.65)	\$ 0.43	\$ (0.67)	\$ 0.05	\$ 0.09
Cumulative effect of accounting change, net of taxes			(1.29)				
Net income (loss) per share basic	\$ 1.22	\$ (0.83)	\$ (1.94)	\$ 0.43	\$ (0.67)	\$ 0.05	\$ 0.09
Income (loss) per share diluted:							
Before cumulative effect of accounting change	\$ 1.12	\$ (0.83)	\$ (0.65)	\$ 0.42	\$ (0.67)	\$ 0.05	\$ 0.09
Cumulative effect of accounting change, net of taxes			(1.29)				
Net income (loss) per share diluted	\$ 1.12	\$ (0.83)	\$ (1.94)	\$ 0.42	\$ (0.67)	\$ 0.05	\$ 0.09
Dividends per common share <sup>(9)</sup>	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.04	\$ 0.04

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Weighted-average number of common shares  
outstanding:<sup>(10)</sup>

Basic	13,333	13,617	13,809	14,040	16,942	15,872	17,384
Diluted	17,568	13,617	13,809	14,418	16,942	16,124	17,488

**Other Data:**

Interest expense	\$ 11,146	\$ 12,386	\$ 10,352	\$ 10,257	\$ 8,903	\$ 2,257	\$ 2,321
Investment income	575	352	124	227	388		108
Depreciation & amortization	5,776	5,875	5,364	5,231	5,355	1,347	1,482
Capital expenditures	7,883	5,727	6,125	5,434	7,086	2,282	1,069
Ratio of earnings to fixed charges	2.3	(11)	(11)	1.5	(11)	1.3	1.6

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	As of <sup>(1)</sup>					As of	
	June 2, 2001	June 1, 2002	May 31, 2003	May 29, 2004	May 28, 2005	August 28, 2004	September 3, 2005
	(In thousands unless otherwise stated)						
	(Unaudited)						(Unaudited)
<b>Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 15,946	\$ 15,296	\$ 16,874	\$ 16,927	\$ 24,530	\$ 12,758	\$ 20,285
Working capital	225,436	186,554	179,303	174,369	159,326	179,897	156,023
Property, plant and equipment, net	28,753	28,827	31,088	30,589	31,821	31,651	31,597
Total assets	321,557	286,653	267,408	282,945	287,818	290,216	300,061
Current maturities of long-term debt	205	38	46	4,027	22,305	3,867	23,451
Long-term debt	155,134	132,218	138,396	133,813	98,028	115,329	99,046
Stockholders' equity	112,795	102,955	78,821	88,167	104,048	117,078	106,889

- (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 \$13.1 million in fiscal 2005 to increase the valuation allowance related to our deferred tax assets in the United States (\$12.3 million) and outside the United States (\$0.8 million).
- (6) We reclassified customer discounts from selling, general and administrative expenses to net sales for fiscal 2001, 2002, 2003, and 2004 to conform to the fiscal 2005 presentation.
- (7) 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.
- (8) 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 \$612 in 2001 and \$577 in 2002.
- (9) The dividend per class B common share was 90% of the dividend per common share.
- (10) The weighted-average number of common shares outstanding includes 3,220, 3,207, 3,207, 3,168 and 3,120 class B common shares for the fiscal years ended June 2, 2001, June 1, 2002, May 31, 2003, May 29, 2004, and May 28, 2005, respectively.
- (11) Due to losses in fiscal 2002, fiscal 2003 and fiscal 2005, 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 (in thousands, except as noted).

**Overview**

For the second consecutive year, we achieved record sales with all four strategic business units growing sales for the third year in a row. Sales increased to \$578.7 million in fiscal 2005 with strong demand for custom display and wireless products. Sales at all four of our geographic areas increased over fiscal 2004 with continued strength in Asia/Pacific where sales achieved double-digit growth for the seventh consecutive year.

In fiscal 2005, we recorded a net loss of \$11.3 million, or \$0.67 per diluted share, which included incremental tax provisions, gain on sale of land, restructuring and other charges. Incremental income tax provisions of \$13.1 million were recorded in fiscal 2005 primarily to increase the valuation allowance related to our deferred tax assets. We sold approximately 205 acres of undeveloped real estate adjoining our headquarters in the fourth quarter of fiscal 2005, resulting in a realized gain of \$9.9 million before taxes. In addition, we implemented restructuring actions at the end of the third quarter of fiscal 2005, which included changes in management and a reduction in workforce of over 60 employees, to accelerate the alignment of operations with our engineered solutions strategy and improve operating efficiency. Restructuring charges of \$2.2 million and incremental inventory write-down charges of \$0.9 million were recorded in the fiscal year. The restructuring charges were recorded to selling, general and administrative expenses.

In December 2004, we acquired the assets of Evergreen Trading Company, a distributor of passive components in China. The aggregate acquisition price was \$0.4 million, which was paid in cash. Evergreen Trading Company has been integrated into the Industrial Power Group (IPG). Evergreen Trading Company is similar to us in that they also emphasize engineered solutions by offering technical services and design assistance. This acquisition is intended to provide IPG with an infrastructure and a selling organization to more aggressively expand our business throughout China.

Also in December 2004, we formed a joint venture with Light Speed Labs, LP to support the Security System Division and Display Systems Group. The joint venture was organized as a limited liability company under the name VConex, LLC and is expected to develop distinctive and proprietary security and display solutions which will be exclusively marketed through us. This venture is expected to provide engineering resources and expertise to develop network video technology applications for large national accounts such as retail and hospitality chains for security and display solutions needs.

**Table of Contents****Results of Operations**

*Three Months Ended September 3, 2005 Compared to the Three Months Ended August 28, 2004*

*Net Sales and Gross Margin Analysis.* In the first quarter of fiscal 2006, consolidated net sales increased 14.2% to \$158.1 million as all four SBU s increased net sales over the prior year s first quarter with strong demand for custom displays and wireless products. Effective June 1, 2005, we acquired A.C.T. Kern GmbH & Co. KG ( Kern ), a leading display technology company in Europe. Net sales for Kern, included in DSG and the Europe region, in the first quarter of fiscal 2006 were \$3.4 million. The first quarter of fiscal 2006 contained 14 weeks as compared to 13 weeks for the first quarter of fiscal 2005. Net sales by SBU are presented as follows (in thousands):

	<u>FY 2006</u>	<u>FY 2005</u>	<u>% Change</u>
<b>Net Sales</b>			
<b>First Quarter</b>			
RFWC	\$ 72,473	\$ 64,427	12.5%
IPG	32,522	29,647	9.7%
SSD	26,904	25,761	4.4%
DSG	24,450	16,980	44.0%
Corporate	1,796	1,632	
	<u>          </u>	<u>          </u>	
Total	<u>\$ 158,145</u>	<u>\$ 138,447</u>	14.2%

*Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Corporate consists of freight, other non-specific net sales, and customer cash discounts.*

Consolidated gross margins increased 15.8% to \$38.8 million in the first quarter of fiscal 2006 as compared with \$33.5 million in the same period last fiscal year due mainly to an increase in sales volume. Consolidated gross margin as a percentage of net sales was 24.5% in the first quarter of fiscal 2006 versus 24.2% in the first quarter of last fiscal year. Gross margin for each SBU and gross margin as a percentage of net sales are presented in the following table. Gross margin 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 margin on freight, general inventory obsolescence provisions, and miscellaneous costs are included under the caption Corporate (in thousands):

	<u>FY 2006</u>	<u>% of Net Sales</u>	<u>FY 2005</u>	<u>% of Net Sales</u>
<b>Gross Margin</b>				
<b>First Quarter</b>				
RFWC	\$ 16,308	22.5%	\$ 14,670	22.8%
IPG	9,904	30.5%	9,107	30.7%
SSD	7,014	26.1%	6,498	25.2%
DSG	6,015	24.6%	4,133	24.3%
Corporate	(425)		(879)	
	<u>          </u>		<u>          </u>	

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Total	\$ 38,816	24.5%	\$ 33,529	24.2%
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*Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Corporate consists of freight, other non-specific gross margins, and customer cash discounts.*

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



**Table of Contents****RF & Wireless Communications Group**

RFWC net sales increased 12.5% in the first quarter of fiscal 2006 to \$72.5 million as compared with \$64.4 million in the same period last fiscal year. The sales growth was due mainly to an increase in sales of the network access and infrastructure product lines with growth of 24.4% and 22.2% to \$30.6 million and \$21.4 million, respectively, offset by lower net sales of passive/interconnect products. The sales growth was the main contributor to the gross margin increase of 11.2% to \$16.3 million; however, RFWC gross margin percentage declined to 22.5% from 22.8% due mainly to product mix.

**Industrial Power Group**

IPG net sales increased in the first quarter of fiscal 2006 to \$32.5 million, 9.7% higher than \$29.6 million in the first quarter of fiscal 2005. Tube sales increased 10.3% in the first three months of fiscal 2006 to \$17.5 million versus \$15.9 million in the same period last fiscal year, and power components sales grew to \$11.2 million, 7.7% higher than \$10.4 million in the same period last fiscal year. Gross margin for IPG increased 8.8% to \$9.9 million due to sales volume increases in these product lines in the first quarter of fiscal 2006, while gross margin percentage remained relatively flat with the first quarter of fiscal 2005.

**Security Systems Division**

Net sales for SSD increased 4.4% in the first quarter of fiscal 2006 to \$26.9 million as compared with \$25.8 million in the first quarter of fiscal 2005. Net sales of private label products increased 22.1% to \$8.5 million in the first quarter of fiscal 2006 as compared with \$7.0 million in the same period last fiscal year. Gross margin for SSD increased 7.9% to \$7.0 million in the first three months of fiscal 2006 versus the same period last fiscal year and SSD gross margin percentage increased to 26.1% due primarily to improvement in the private label product line gross margin.

**Display Systems Group**

DSG net sales grew 44.0% in the first quarter of fiscal 2006 to \$24.5 million as compared with \$17.0 million in the first quarter of fiscal 2005. The sales growth was mainly due to the Kern acquisition and to an increase in sales of the custom display and medical monitor product lines with increases of 135.1% and 15.9% to \$9.1 million and \$8.8 million, respectively. DSG gross margin increased 45.5% to \$6.0 million and the gross margin percentage increased to 24.6% from 24.3%.

*Sales by Geographic Area.* On a geographic basis, we categorize our sales by destination: North America, Europe, Asia/Pacific, 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 2006</u>	<u>FY 2005</u>	<u>% Change</u>
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<b>Net Sales</b>			
<b>First Quarter</b>			
North America	\$ 82,121	\$ 74,340	10.5%
Europe	32,806	29,502	11.2%
Asia/Pacific	37,200	28,789	29.2%
Latin America	6,000	4,865	23.3%
Corporate	18	951	
	<u>          </u>	<u>          </u>	
Total	\$ 158,145	\$ 138,447	14.2%
	<u>          </u>	<u>          </u>	

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	<u>FY 2006</u>	<u>% of Net Sales</u>	<u>FY 2005</u>	<u>% of Net Sales</u>
<b>Gross Margin</b>				
<b>First Quarter</b>				
North America	\$ 21,489	26.2%	\$ 18,969	25.5%
Europe	9,610	29.3%	8,427	28.6%
Asia/Pacific	9,138	24.6%	6,716	23.3%
Latin America	1,522	25.4%	1,294	26.6%
Corporate	(2,943)		(1,877)	
	<u>          </u>		<u>          </u>	
<b>Total</b>	<b>\$ 38,816</b>	<b>24.5%</b>	<b>\$ 33,529</b>	<b>24.2%</b>
	<u>          </u>		<u>          </u>	

*Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Europe includes sales and gross margins to Middle East and Africa. Latin America includes sales and gross margins to Mexico. Corporate consists of freight and other non-specific sales and gross margins.*

Net sales in North America increased 10.5% to \$82.1 million in the first quarter of fiscal 2006 as compared with \$74.3 million in the first quarter of fiscal 2005. The sales growth was due mainly to higher demand for display systems in the U.S. and security systems in Canada. In addition, net sales in Canada experienced an overall gain of 23.2% to \$21.1 million in the first quarter of fiscal 2006 versus \$17.2 million in the prior fiscal year. An increase in net sales of higher margin products resulted in gross margin improvement in North America to 26.2% for the first quarter of fiscal 2006.

Net sales in Europe grew to \$32.8 million in the first quarter of fiscal 2006, 11.2% higher than \$29.5 million in the same period a year ago due mainly to the Kern acquisition. Gross margin in Europe increased to 29.3%. Improved gross margins in wireless and security products in the first quarter of fiscal 2006 versus fiscal 2005 were the main drivers of the increase in gross margin percentage.

Net sales in Asia/Pacific increased 29.2% to \$37.2 million in the first quarter of fiscal 2006 versus \$28.8 million in the same period last fiscal year led by continued strong demand for wireless products. Net sales in Korea increased 52.0% to \$12.0 million in the first quarter of fiscal 2006 due mainly to higher sales of wireless products. Gross margins for all strategic business units in Asia/Pacific improved in the first quarter of fiscal 2006 as compared to last fiscal year's first quarter due mainly to improved product mix.

Net sales in Latin America improved 23.3% to \$6.0 million in the first quarter of fiscal 2006 as compared with \$4.9 million in the first quarter of fiscal 2005. The net sales growth was mainly driven by an increase in sales of industrial power products. Gross margin in Latin America declined to 25.4% in the first quarter of fiscal 2006 versus 26.6% in the year ago period primarily due to product mix.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses (SG&A) increased 13.2% to \$33.1 million in the first quarter of fiscal 2006 as compared with \$29.2 million in same period last fiscal year. The increase in expenses was primarily due to the acquisition of Kern and the additional week of payroll included in the first quarter of fiscal 2006 as compared with the first quarter of fiscal 2005. For the first quarter of fiscal 2006, total SG&A decreased to 20.9% of net sales compared to 21.1% in last fiscal year's first quarter.

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*Other (Income) Expense.* In the first quarter of fiscal 2006, other (income) expense decreased to \$2.1 million from \$3.2 million the first quarter of fiscal 2005. Other (income) expense included a foreign exchange gain of \$0.1 million in the first quarter of fiscal 2006 as compared with a foreign exchange loss of \$0.9 million last year. The foreign exchange variance was due to the strengthening of the U.S. dollar, primarily related to intercompany receivables held by the U.S. parent company and denominated in foreign currencies. Interest expense of \$2.3 million was relatively flat with the prior year's first quarter.

*Income Tax Provision.* The effective income tax rates for the fiscal years ended September 3, 2005 and August 28, 2004 were 58.6% and 28.5%, respectively. The difference between the effective tax rate as compared

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to the U.S. federal statutory rate of 34% primarily results from our geographical distribution of taxable income and losses, and, in the quarter ended September 3, 2005, valuation allowances related to net operating losses. In addition, the first quarter of fiscal 2006 includes an income tax provision of \$0.3 million for income tax exposures related to prior years.

*Net Income and Per Share Data.* Net income for the first quarter of fiscal 2006 was \$1,562, or \$0.09 per diluted share, as compared with \$807, or \$0.05 per diluted share in the first quarter of fiscal 2005.

*Comparison of Years Ended May 28, 2005, May 29, 2004 and May 31, 2003*

*Net Sales and Gross Margin Analysis.* In fiscal 2005, consolidated net sales increased 11.3% to \$578.7 million as all four SBUs increased net sales over the prior year with strong demand for custom display and wireless products. Consolidated net sales in fiscal 2004 increased 11.9% to \$519.8 million due to increased demand across all SBUs. Net sales by SBU and percent of consolidated net sales are presented in the following table (in thousands):

	Fiscal Year Ended				
	May 28, 2005	May 29, 2004*	May 31, 2003*	FY05 vs FY04 % Change	FY04 vs FY03 % Change
<b>Net Sales</b>					
RFWC	\$ 265,602	\$ 231,389	\$ 204,427	14.8%	13.2%
IPG	122,906	112,737	95,508	9.0%	18.0%
SSD	105,581	101,979	92,090	3.5%	10.7%
DSG	78,078	66,452	64,191	17.5%	3.5%
Other	6,557	7,266	8,165	(9.8)%	(11.0)%
<b>Total</b>	<b>\$ 578,724</b>	<b>\$ 519,823</b>	<b>\$ 464,381</b>	<b>11.3%</b>	<b>11.9%</b>

\* NOTE: The data has been reclassified to conform with the fiscal 2005 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Other consists of freight, other non-specific sales and gross margins, and customer cash discounts.

Gross margin for each SBU and margin as a percent of each SBU's net sales are shown in the following table. Gross margin reflects the distribution product margin less manufacturing variances, customer returns, scrap and cycle count adjustments, engineering costs, and other provisions. Gross margin on freight, inventory obsolescence provisions, and miscellaneous costs are included under the caption "Other" in fiscal 2004 and 2003. In fiscal 2005, we allocated charges related to inventory overstock directly to each SBU (in thousands):

	Fiscal Year Ended		
	May 28, 2005	May 29, 2004*	May 31, 2003*

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<b>Gross Margin</b>						
RFWC	\$ 58,162	21.9%	\$ 52,340	22.6%	\$ 45,687	22.3%
IPG	37,005	30.1%	34,694	30.8%	29,523	30.9%
SSD	26,889	25.5%	26,045	25.5%	22,939	24.9%
DSG	17,865	22.9%	17,105	25.7%	16,218	25.3%
	<hr/>		<hr/>		<hr/>	
Subtotal	139,921	24.5%	130,184	25.4%	114,367	25.1%
Other	(3,014)		(2,478)		(15,413)	
	<hr/>		<hr/>		<hr/>	
Total	\$ 136,907	23.7%	\$ 127,706	24.6%	\$ 98,954	21.3%
	<hr/>		<hr/>		<hr/>	

\* NOTE: The data has been reclassified to conform with the fiscal 2005 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Other consists of freight, other non-specific sales and gross margins, and customer cash discounts.

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In fiscal 2005, we implemented restructuring actions at the end of the third quarter, which included changes in management and a reduction in workforce of over 60 employees, in an effort to reduce our cost structure, accelerate the alignment of operations with our engineered solutions strategy, and improve operating efficiency. As a result of the restructuring actions, a restructuring charge of \$2.2 million was recorded in selling, general and administrative expenses (SG&A) in the third quarter of fiscal 2005. During the fourth quarter of fiscal 2005, the employee severance and related costs were adjusted resulting in a \$0.2 million decrease in SG&A due to the difference between estimated severance costs and actual payouts. Severance costs of \$1.1 million were paid in fiscal 2005. The remaining balance payable in fiscal 2006 has been included in accrued liabilities. As of May 28, 2005, the following tables depict the amounts associated with the activity related to restructuring by reportable segment (in thousands):

	<b>Restructuring Liability June 1, 2002</b>	<b>Reserve Recorded Fiscal 2003</b>	<b>Payments Fiscal 2003</b>	<b>Adjustment to Reserve Fiscal 2003</b>	<b>Restructuring Liability May 31, 2003</b>
<b>Fiscal 2003</b>					
Employee severance and related costs:					
RFWC	\$	\$ 468	\$ (125)	\$	\$ 343
IPG		86	(5)		81
SSD		161	(40)		121
DSG		62	(24)		38
Corporate	250	833	(474)		609
<b>Total</b>	<b>250</b>	<b>1,610</b>	<b>(668)</b>		<b>1,192</b>
Lease termination costs:					
SSD		210			210
<b>Total</b>	<b>\$ 250</b>	<b>\$ 1,820</b>	<b>\$ (668)</b>	<b>\$</b>	<b>\$ 1,402</b>
<b>Fiscal 2004</b>					
Employee severance and related costs:					
RFWC	\$ 343	\$ 289	\$ (632)	\$	\$
IPG	81		(81)		
SSD	121		(121)		
DSG	38		(38)		
Corporate	609		(321)	(288)	
<b>Total</b>	<b>1,192</b>	<b>289</b>	<b>(1,193)</b>	<b>(288)</b>	
Lease termination costs:					
SSD	210			(210)	
<b>Total</b>	<b>\$ 1,402</b>	<b>\$ 289</b>	<b>\$ (1,193)</b>	<b>\$ (498)</b>	<b>\$</b>
<b>Fiscal 2005</b>					
	<b>Restructuring Liability May 29, 2004</b>	<b>Reserve Recorded Fiscal 2005</b>	<b>Payments Fiscal 2005</b>	<b>Adjustment to Reserve Fiscal 2005</b>	<b>Restructuring Liability May 28, 2005</b>

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**Fiscal 2005**

Employee severance and related costs:

RFCW	\$	\$ 909	\$ (392)	\$ (199)	\$ 318
IPG		325	(142)		183
SSD		99	(90)	16	25
DSG		416	(186)		230
Corporate		368	(298)		70

Total		2,117	(1,108)	(183)	826
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Lease termination costs:

SSD		35			35
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Total	\$	\$ 2,152	\$ (1,108)	\$ (183)	\$ 861
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In addition to the restructuring charge, we recorded inventory write-down charges of \$0.9 million in fiscal 2005. In fiscal 2003, we recorded a provision of \$13.8 million primarily for inventory obsolescence, overstock, and shrink to write down inventory to net realizable value as we aligned our inventory and cost structure to current sales levels amid continued economic slowdown and limited visibility.

### **RF & Wireless Communications Group**

RF & Wireless Communications Group net sales increased 14.8% in fiscal 2005 to \$265.6 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. Net sales in Asia/Pacific increased 22.9% to \$94.2 million in fiscal 2005. In fiscal 2004, RFWC net sales increased 13.2% to \$231.4 million due to stronger demand for network access and passive/interconnect products, partially offset by weaker demand in some specialty and broadcast products. The network access and passive/interconnect product line posted net sales growth of 25.7% and 29.1% to \$86.4 million and \$45.2 million, respectively, in fiscal 2004. RFWC Canadian net sales increased 51.2% to \$11.0 million and our Asia/Pacific net sales increased 37.1% to \$76.8 million in fiscal 2004.

Gross margins in fiscal 2005 decreased 70 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. In fiscal 2004, gross margins were up 30 basis points, led by the sales growth of higher margin network access and passive/interconnect product lines. Network access and passive/interconnect product lines gross margins were 24.1% and 25.7% in fiscal 2004 and 24.9% and 27.1% in fiscal 2003, respectively. Gross margins in Canada and Asia/Pacific increased 45.6% and 31.7% in fiscal 2004, respectively.

### **Industrial Power Group**

Industrial Power Group net sales in fiscal 2005 grew 9.0% to \$122.9 million as power component net sales increased 17.3% to \$40.7 million. Tube net sales grew 4.3% in fiscal 2005 to \$80.8 million. In fiscal 2004, net sales increased 18.0% to \$112.7 million led by strong, broad-based demand. IPG tube net sales in fiscal 2004 increased 14.8% to \$77.4 million and power component net sales increased 25.7% to \$34.7 million.

Gross margins in fiscal 2005 decreased 70 basis points to 30.1% primarily due to additional freight expenses of \$0.5 million and sales growth of lower margin power component products, which had gross margins of 26.1% in fiscal 2005. Gross margins were relatively flat at 30.8% and 30.9% in fiscal 2004 and 2003, respectively.

### **Security Systems Division**

Net sales for the Security Systems Division 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 \$58.5 million 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. Net sales in fiscal 2004 exceeded \$100 million for the first time, up 10.7% from fiscal 2003 to \$102.0 million with strong growth in Canada and renewed growth in the U.S., principally due to an increase in digital video recorder sales. SSD net sales increased 10.5% in the U.S. to \$30.6 million and 14.2% in Canada to \$51.8 million, respectively, in fiscal 2004.

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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 sales growth of higher margin private label sales. In fiscal 2004, gross margins were up 60 basis points as higher margin digital technology products represented a larger percentage of net sales.

**Table of Contents****Display Systems Group**

Display Systems Group 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. DSG net sales increased 3.5% in fiscal 2004 to \$66.5 million as medical monitor net sales increased 14.7% to \$26.8 million, reflecting the continued shift from a film-based environment to digital systems. Due to the timing of large project based business, custom display sales declined 18.3% in fiscal 2004 to \$13.5 million.

Gross margins in fiscal 2005 decreased 280 basis points primarily due to declining average selling prices for medical monitors. In fiscal 2004, gross margins increased 40 basis points as monitors and specialty displays expanded margins, partially offset by slightly lower margins in custom displays and cathode ray tubes.

*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 34 facilities in North America, 20 in Europe, 16 in Asia/Pacific, and 5 in Latin America. On a geographic basis, we primarily categorizes our sales by destination: North America, Europe, Asia/Pacific, Latin America, and Corporate. Net sales and gross margin, as a percent of net sales, by geographic area are as follows (in thousands):

	Fiscal Year Ended			FY05 vs FY04 % Change	FY04 vs FY03 % Change
	May 28, 2005	May 29, 2004*	May 31, 2003*		
<b>Net Sales</b>					
North America	\$ 303,708	\$ 275,491	\$ 259,606	10.2%	6.1%
Europe	123,846	116,714	103,029	6.1%	13.3%
Asia/Pacific	124,799	104,068	78,146	19.9%	33.2%
Latin America	21,366	20,065	20,521	6.5%	(2.2)%
Corporate	5,005	3,485	3,079	43.6%	13.2%
<b>Total</b>	<b>\$ 578,724</b>	<b>\$ 519,823</b>	<b>\$ 464,381</b>	<b>11.3%</b>	<b>11.9%</b>

	Fiscal Year Ended					
	May 28, 2005		May 29, 2004*		May 31, 2003*	
<b>Gross Margin</b>						
North America	\$ 80,262	26.4%	\$ 71,763	26.0%	\$ 67,829	26.1%
Europe	35,258	28.5%	33,603	28.8%	28,287	27.5%
Asia/Pacific	29,691	23.8%	23,304	22.4%	17,895	22.9%
Latin America	5,879	27.5%	4,860	24.2%	5,272	25.7%
Subtotal	151,090	26.3%	133,530	25.9%	119,283	25.9%
Corporate	(14,183)		(5,824)		(20,329)	
<b>Total</b>	<b>\$ 136,907</b>	<b>23.7%</b>	<b>\$ 127,706</b>	<b>24.6%</b>	<b>\$ 98,954</b>	<b>21.3%</b>

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\* *NOTE: The data has been reclassified to conform to the fiscal 2005 presentation. The modification includes reclassifying customer cash discounts. Europe includes sales and gross margins to Middle East and Africa. Corporate consists of freight and other non-specific sales and gross margins.*

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. In fiscal 2004, net sales in North America increased 6.1% to \$275.5 million, primarily from Canada's sales growth of 18.6% to \$69.7 million, which was led by improved wireless demand and continued strength in the security systems market. The U.S. had limited sales growth in fiscal 2004 due to completion of a large wireless infrastructure project in the prior year and a trend of customers moving manufacturing to Asia. Gross margins in North America improved 40 basis points in fiscal 2005 due to expanding margins in Canada for security systems and wireless sales. In fiscal 2004, gross margins remained relatively flat compared to fiscal 2003.

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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. In fiscal 2004, net sales in Europe increased 13.3% to \$116.7 million as all countries posted increases in sales, partially due to the weakening U.S. dollar. Italy and Israel led the sales growth in fiscal 2004 with strong wireless demand, specifically network access gains in Italy and infrastructure growth in Israel. Gross margins in Europe decreased 30 basis points in fiscal 2005 due to a decline in high margin cathode ray tube sales in DSG. In fiscal 2004, gross margins improved 130 basis points from 27.5% to 28.8%.

We experienced our seventh consecutive year of double-digit growth in Asia/Pacific as net sales 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. In fiscal 2004, net sales in Asia/Pacific advanced 33.2% in fiscal 2004 following a 13.6% increase in fiscal 2003. Net sales in China continued to grow rapidly, increasing 83.3% to \$25.3 million in fiscal 2004 with RFWC net sales more than doubling from the prior year to \$21.0 million, as a result of strong infrastructure, network access, and passive/interconnect demand. 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. Fiscal 2004 gross margins in Asia/Pacific declined slightly from 22.9% to 22.4%.

Net sales in Latin America grew 6.5% in fiscal 2005 to \$21.4 million as all four strategic business units increased sales. In fiscal 2004, net sales in Latin America declined 2.2% to \$20.1 million as decreased broadcast demand in Colombia and Mexico was partially offset by increased industrial power demand in Brazil and Colombia. 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.* Selling, general and administrative expenses increased 18.9% in fiscal 2005 to \$128.7 million from \$108.3 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. 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.

Selling, general and administrative expenses increased \$7.7 million in fiscal 2004 to \$108.3 million. Payroll-related expenses increased \$4.6 million due primarily to increased sales and additional headcount required to support the sales growth. For fiscal 2004, total selling, general and administrative expenses decreased to 20.8% of sales compared to 21.7% in fiscal 2003.

*(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.* Interest expense decreased to \$8.9 million in fiscal 2005 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 requirements. Interest expense decreased slightly in fiscal 2004 to \$10.3 million, partially due to lower interest on revolving credit agreement and bank loans. The weighted average interest rate was 6.38%, 5.98%, and 6.09% for fiscal 2005, 2004, and 2003, respectively.

Other, net expenses included a foreign exchange gain of \$910 and investment income of \$388 in fiscal 2005 compared to a foreign exchange loss of \$363 and investment income of \$227 in fiscal 2004.



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*Income Tax Provision.* At May 28, 2005, domestic net operating loss carryforwards (NOL) amount to approximately \$19.9 million. These NOLs expire between 2023 and 2025. Foreign net operating loss carryforwards total approximately \$18.4 million with various or indefinite expiration dates. In fiscal 2005, we recorded an additional valuation allowance of approximately \$0.8 million relating to deferred tax assets and net operating loss carryforwards relating to certain foreign subsidiaries. Also, due to changes in the level of certainty regarding realization, a valuation allowance of approximately \$12.3 million was established in fiscal 2005 to offset certain domestic deferred tax assets and domestic net operating loss carryforwards. We also have an alternative minimum tax credit carryforward at May 28, 2005, in the amount of \$1.2 million that has an indefinite carryforward period.

Income taxes paid, including foreign estimated tax payments, were \$3.3 million, \$1.7 million, and \$2.7 million in fiscal 2005, 2004, and 2003, 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, we determined that approximately \$12.9 million of our foreign subsidiaries' earnings may be distributed in future years. 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 have established a deferred tax liability of approximately \$4.9 million. The remaining cumulative positive earnings of our foreign subsidiaries were still considered permanently reinvested pursuant to APB No. 23 and amounted to \$29.1 million.

The effective income tax rates for the fiscal years ended May 28, 2005 and May 29, 2004 were 36.7% and 29.6%, respectively, excluding the establishment of the domestic valuation allowance and deferred tax liabilities in fiscal 2005. The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% primarily results from our geographical distribution of taxable income and losses, certain non-tax deductible charges, and our extraterritorial income exclusion on export sales, net of state income taxes.

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. The tax benefit from the current ETI exclusion was \$166 and \$491 for fiscal 2005 and 2004. When this benefit is fully phased out, it will have a negative impact on the rate because the new deduction for qualified domestic activity will be of minimal benefit to us.

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 year 2005 and is expected to have no material impact on our operations for fiscal year 2006, 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 assesses 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 2005, we reported a net loss of \$11.3 million, or \$0.67 per diluted share, compared to net income of \$6.0 million, or \$0.42 per diluted share, in fiscal 2004. In fiscal 2003, we reported a net loss of \$26.9 million, or \$1.94 per diluted share.





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### **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 is increased by proceeds from borrowings and dispositions of businesses and assets.

Cash and cash equivalents were \$20.3 million at September 3, 2005, a decrease of \$4.2 million from fiscal 2005 year end. Cash provided by operating activities for the first quarter of fiscal 2006 was \$5.2 million versus cash utilization of \$9.6 million in the same period last year. The increase was mainly due to lower accounts receivables and higher accounts payable and accrued liabilities, offset by higher inventory levels needed for stocking requirements due to anticipated sales growth.

Net cash used in investing activities of \$7.4 million was a result of the acquisition, effective June 1, 2005, of Kern located in Donaueschingen in southern Germany. The cash outlay for Kern was \$6.5 million, net of cash acquired. Kern is one of the leading display technology companies in Europe with world wide customers in manufacturing, OEM, medicine, multimedia, IT trading, system houses, and other industries.

Net cash used in financing activities of \$2.1 million was primarily due to payments of debt during the first quarter of fiscal 2006.

In October 2004, we renewed our multi-currency revolving credit agreement with the current lending group in the amount of \$109.0 million. The agreement matures in October 2009, when the outstanding balance at that time will become due. At September 3, 2005, \$54.3 million was outstanding under the amended and restated credit agreement. The amended and restated credit agreement is principally secured by our trade receivables and inventory. The amended and restated credit agreement bears interest at applicable LIBOR rates plus a margin, varying with certain financial performance criteria. At September 3, 2005, the applicable margin was 2.25%. Outstanding letters of credit were \$1.6 million at September 3, 2005, leaving an unused line of \$53.0 million under the total amended and restated credit agreement; however, this amount was reduced to \$9.2 million due to maximum permitted leverage ratios. The commitment fee related to the amended and restated credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment.

On August 24, 2005, we executed an amendment to the amended and restated 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. In addition, the amendment also provides that we will maintain excess availability on the borrowing base of not less than \$23.0 million until June 30, 2006 if a default or event of default does not exist on or before this date. The applicable margin pricing was increased by 25 basis points. In addition, the amendment extended our requirement to refinance the remaining \$22.3 million aggregate principal amount of our 7¼% convertible subordinated debentures and the 8¼% convertible senior subordinated debentures from February 28, 2006 to June 10, 2006.

At September 3, 2005, we were not in compliance with our amended and restated 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 amended and restated 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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In February 2005, we issued \$44.7 million of 7<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes due 2011 in exchange for \$22.2 million of our 7<sup>1</sup>/<sub>4</sub>% debentures and \$22.5 million of our 8<sup>1</sup>/<sub>4</sub>% debentures. The notes are

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convertible at the holder's option, at any time on or prior to maturity, into shares of our common stock at a price equal to \$18.00 per share, subject to adjustments in certain circumstances. On or after December 19, 2006, we may elect to automatically convert the notes into shares of common stock if the trading prices of the common stock exceeds 125% of the conversion price of the notes for at least twenty trading days during any thirty trading day period ending within five trading days prior to the date of the automatic conversion notice. Subsequent to the exchange, we had outstanding \$4.8 million of 7<sup>1</sup>/<sub>4</sub>% debentures, \$17.5 million of 8<sup>1</sup>/<sub>4</sub>% debentures, and \$44.7 million of 7<sup>3</sup>/<sub>4</sub>% notes. The amended credit agreement, however, requires us to refinance the remaining \$22.3 million aggregate principal amount of the 8<sup>1</sup>/<sub>4</sub>% debentures and the 7<sup>1</sup>/<sub>4</sub>% debentures by June 10, 2006.

On November 21, 2005, we sold \$25 million in aggregate principal amount of our 8% notes to qualified institutional buyers in a private placement. We have used the net proceeds from the sale of the 8% notes to repay amounts outstanding under our amended and restated credit agreement. We have agreed to redeem all of our outstanding 7<sup>1</sup>/<sub>4</sub>% debentures on December 30, 2005 and 8<sup>1</sup>/<sub>4</sub>% debentures on December 23, 2005 and intend to reborrow amounts under our amended and restated credit agreement to effect these redemptions.

The 8% notes bear interest at a rate of 8% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2006. The 8% notes mature on June 15, 2011. The 8% notes are unsecured and subordinated to our existing and future senior indebtedness and any secured indebtedness and rank on parity with the notes and all future senior subordinated indebtedness.

Under the terms of the 8% notes, holders may convert the 8% notes into shares of our common stock at any time prior to their maturity date. We may also elect to automatically convert the 8% notes if the trading price of our common stock exceeds 150% of the conversion price for at least 20 trading days during any 30 trading day period, subject to make-whole payments if we elect to convert the 8% notes prior to December 20, 2008. The initial conversion price is \$10.31 per share, which represents a 25% premium over the closing price of our stock on November 18, 2005. If fully converted, the 8% notes would convert into approximately 2,424,830 shares of our common stock. The conversion price is subject to adjustment in certain circumstances.

The 8% notes are fully redeemable by us at any time after December 20, 2008 at 100% of the principal amount plus accrued and unpaid interest. The 8% notes are also redeemable at the option of the holders upon a change of control of Richardson, termination of trading of our common stock and in certain other circumstances. We have agreed to register the resale of the 8% notes and common stock issuable upon conversion of the 8% notes with the Securities and Exchange Commission. See Description of Certain Other Indebtedness 8% Notes.

Annual dividend payments for fiscal 2005 amounted to \$2.7 million. Our policy regarding payment of dividends is reviewed periodically by the Board of Directors in light of our operating needs and capital structure. Over the last 18 years, we have been in a position to regularly pay a quarterly dividend of \$0.04 per common share and \$0.036 per Class B common share. We currently expect this trend to continue in fiscal 2006.

We spent approximately \$7.1 million on capital projects during fiscal 2005, primarily related to implementing PeopleSoft purchasing and inventory modules, facility improvements at the Corporate headquarters, disaster recovery equipment, and Sarbanes-Oxley remediation software and hardware. We spent approximately \$5.4 million on capital projects in fiscal 2004. The fiscal 2004 amount primarily related to capitalized PeopleSoft development costs, system hardware and disaster recovery, storage area network, and software.

In May 2005, we completed the sale of approximately 205 acres of undeveloped real estate adjoining our headquarters in LaFox, Illinois for \$10.9 million, which was used to reduce debt.



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We had interest rate exchange agreements to convert approximately \$36.4 million of floating rate debt to an average fixed rate of 8.7%, which expired in July 2004. Additional interest expense recorded in the Consolidated Statement of Operations related to these agreements was \$0.1 million, \$1.3 million, and \$0.8 million in fiscal 2005, 2004, and 2003, respectively.

See Risk Management and Market Sensitive Financial Instruments for information regarding the effect on net income of market changes in interest rates.

**Contractual Obligations and Commitments**

Certain contractual obligations and other commercial commitments by expiration period as of May 28, 2005 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 debentures/notes <sup>(1)(2)</sup>	\$ 66,974	\$ 22,291	\$	\$	\$ 44,683
Convertible debentures/notes interest <sup>(1)(2)</sup>	24,911	5,254	10,711	8,946	
Floating-rate multi-currency revolving credit agreement <sup>(3)</sup>	53,314			53,314	
Floating-rate multi-currency revolving credit agreement interest <sup>(3)</sup>	10,737	2,431	7,293	1,013	
Lease obligations <sup>(4)</sup>	10,538	5,092	5,037	409	
Performance bonds <sup>(5)</sup>	492		492		
Other	45	14	28	3	
<b>Total</b>	<b>\$ 167,011</b>	<b>\$ 35,082</b>	<b>\$ 23,561</b>	<b>\$ 63,685</b>	<b>\$ 44,683</b>

- (1) Convertible debentures consist of the 8<sup>1</sup>/<sub>4</sub>% debentures, with principal of \$17.5 million due June 2006, and the 7<sup>1</sup>/<sub>4</sub>% debentures, with principal of \$4.8 million due December 2006, both of which are required by our amended credit agreement to be refinanced by June 2006.
- (2) Convertible notes consist of the 7<sup>3</sup>/<sub>4</sub>% notes, with principal of \$44.7 million due December 2011.
- (3) The floating rate multi-currency revolving credit agreement matures in October 2009 and bears interest at applicable LIBOR rates plus a 175 basis point margin. Interest in the table above is calculated using 4.56% interest rate and \$53,314 principal amount as of May 28, 2005 for all periods presented.
- (4) Lease obligations are related to certain warehouse and office facilities and office equipment under non-cancelable operating leases.
- (5) Certain French customers require a performance bond with an expiration date of August 2006, renewable annually.

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 3, 2006. On November 21, 2005, we sold \$25 million in aggregate principal amount of our 8% notes to qualified institutional buyers in a private placement. We have used the net proceeds from the sale of the 8% notes to repay amounts outstanding under our amended and restated credit agreement. We have agreed to redeem all of our outstanding 7<sup>1</sup>/<sub>4</sub>% debentures on December 30, 2005 and 8<sup>1</sup>/<sub>4</sub>% debentures on December 23, 2005 and intend to reborrow amounts under our amended and restated credit agreement to effect these redemptions.

**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

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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.

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 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 May 28, 2005, the balance in the account was \$1.9 million as compared to \$2.5 million at May 29, 2004.

*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 2005, 2004, and 2003 of \$49, \$226, and \$72, respectively.

*Inventories.* In fiscal 2003, we carried our inventories at the lower of cost or market using the last-in, first-out (LIFO) method. Effective in fiscal 2004, the North American operations, which represent a majority of our operations and approximately 78% of our inventories, changed from the LIFO method to the first-in, first-out (FIFO) method. All other inventories were consistently stated at the lower of cost or market using the FIFO method. We believe the FIFO method is preferable in these circumstances because it provides a better matching of revenue and expenses in our business environment. The accounting change was not material to the financial statements for any of the periods, and accordingly, no retroactive restatement of prior years' financial statements was made.

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 \$3.9 million, \$2.0 million, and \$13.8 million in fiscal 2005, 2004, and 2003, respectively, which was included in the cost of products sold. 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



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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, management makes 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. As a result of the adoption of SFAS No. 142, we recorded a transitional impairment charge during the first quarter of fiscal 2003 of \$21.6 million (\$17.9 million net of tax), presented as a cumulative effect of accounting change. We performed our impairment test during the fourth quarter of each fiscal year. We did not find any indication that additional impairment existed and, therefore, no additional impairment loss was recorded in fiscal 2005.

*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 products sold 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 manufacturer's experience 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 historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. If we are unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowance against our deferred tax assets resulting in an increase in our effective tax rate and an

adverse impact on operating results.

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At May 28, 2005 and May 29, 2004, our deferred tax assets related to tax carryforwards were \$14.2 million and \$14.9 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, loss carryforwards, and 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 December 2004, the Financial Accounting Standards Board (FASB) revised SFAS No. 123, *Accounting for Stock-Based Compensation*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) is effective at the beginning of the next fiscal year that begins after June 15, 2005, or our fiscal year 2007. We are evaluating the impact of the adoption of SFAS No. 123(R) on the financial statements.

## **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 and member countries of the European community and, to a lesser extent, in Asia/Pacific and Latin America. We monitor our foreign exchange exposures and have entered into forward contracts to hedge significant transactions; however, this activity is infrequent. We did not enter into any forward contracts in fiscal 2006 or fiscal 2005. Other tools that may be used to manage foreign exchange exposures include the use of currency clauses in sales contracts and the use of local debt to offset asset exposures.

As discussed above, our debt financing, 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 uniform 10% strengthening of the U.S. dollar against foreign currencies on our reported net earnings and financial position.

Had the U.S. dollar strengthened 10% against various foreign currencies, sales would have been lower by an estimated \$6.1 million in the first quarter of fiscal 2006 and \$5.2 million in the first quarter of fiscal 2005. Total assets would have declined by an estimated \$11.8 million as of the quarter ended September 3, 2005 and an estimated \$10.7 million as of the fiscal year ended May 28, 2005, while the total liabilities would have decreased by an estimated \$4.8 million as of the quarter ended September 3, 2005 and an estimated \$4.1 million as of the fiscal year ended May 28, 2005.

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.



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**OUR BUSINESS**

**Our Company**

We are a global provider of engineered solutions and a 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 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.

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; 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, improving the geographic sales coverage and driving sales growth by leveraging 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.

Selected financial data attributable to each strategic business unit and geographic data for fiscal 2005, 2004 and 2003 is set forth in Note L of the notes to our consolidated financial statements of our annual report on Form 10-K for the year ended May 28, 2005 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 the 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:

automotive telematics, which is the use of computers and telecommunications to provide wireless voice and data applications in motor vehicles;

RF identification, which is an electronic data collection and identification technology for a wide range of products to transfer data between a movable item and a reader to identify, track, or locate items; and

wireless local area networks.

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 partnering 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 our newly developed 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.

*Power Semiconductors* solid-state, high-frequency, high power products used in semiconductor manufacturing equipment, uninterruptible power supplies, medical radiation, broadcast and industrial heating applications.

*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 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 Amerex, 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, semiconductor processing, lasers, communications 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.

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*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.

*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**

Our Security Systems Division 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 security systems industry is rapidly transitioning from analog to digital imaging technology. We are positioned to take advantage of this transition through our array of innovative products and solutions marketed under our *National Electronics*, *Capture*<sup>®</sup>, *AudioTrak*<sup>®</sup>, and *Elite National Electronics*<sup>®</sup> brands. We expect to gain additional market share by marketing ourselves as a value-added service provider and partnering with our other strategic business units to develop customized solutions as the transition to digital technology continues in the security industry.

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 Sony, 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's 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 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 products.

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We have long-standing relationships with key manufacturers including 3M, Clinton Electronics, IBM, Intel, LG, NEC/Mitsubishi Displays, Panasonic Industrial, Philips-FIMI, Planar Systems, and Siemens Displays. We believe these relationships 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.

*Flat Panel Displays* display monitors incorporating a liquid crystal or plasma panel, 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 typically 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.

## **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 which allows 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 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

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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

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solid-state technologies. Sales of products other than electron tubes represented approximately 83% of our sales in fiscal 2005 compared to 76% in fiscal 2000. In addition, our salespeople increase 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**

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 2005, we made sales to approximately 37,000 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. Recently, we have embarked on a vigorous program in an effort 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. Additional programs are ongoing, including a significant investment in enterprise resource planning software during fiscal 2006.

*Grow Through Acquisitions.* We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 36 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:

Celti Electronics (fiber optic communication - now part of our RF, Wireless & Power Division) in fiscal 2001;

Aviv Electronics of Israel (design-in services for active and passive components - now part of our RF, Wireless & Power Division) in fiscal 2001;

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

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

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Effective June 1, 2005, the Company acquired A.C.T. Kern GmbH & Co. KG located in Germany (display technology now part of our Display Systems Group).



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### **Products and Suppliers**

We purchase numerous products from various suppliers as noted above under Our Strategic Business Units. During fiscal 2005, we added the following suppliers: Aavid Thermal Technologies, Raltron Electronics Corporation, Sony Ericsson Mobile Communications (USA) Incorporated, NEC Display Solutions, Fractus SA, Aeroflex-Inmet, Teledyne Relays, CTS Wireless, LG, and ATC.

We evaluate our customers' needs and maintain sufficient inventories in an effort to ensure our customers a reliable source of supply. We would 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. Since fiscal 2004, we have embarked on a vigorous program in an effort to improve operating efficiencies and asset utilization, with a particular emphasis on inventory control.

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 can not 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 *Amperex*<sup>®</sup>, *AudioTrak*<sup>®</sup>, *Call Capture*, *Capture*<sup>®</sup>, *Cetron*<sup>®</sup>, *Elite National Electronics*<sup>®</sup>, *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.

### **Sales and Marketing**

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As of the end of fiscal 2005, we employed approximately 565 sales personnel worldwide. In addition, we have approximately 158 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 field 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.

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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 an inventory of more than 750,000 part numbers in our 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, our web site at *www.rell.com*, or our catalog at *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 39 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 May 28, 2005, we employed 1,165 individuals on a full-time basis. Of these, 586 were located in the United States and 579 were employed internationally. Our worldwide employee base included 691 in sales and product management, 198 in distribution support, 148 in administrative positions, and 128 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, consisting of approximately 242,000 square feet of manufacturing, warehouse, and office space. 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 P in the notes to the consolidated financial statements for the year ended May 28, 2005, 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. Accordingly, we cannot give any assurance as to the timing or successful completion of the transaction. We also own facilities outside of the United States in England, Spain, Italy and Mexico.

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We also maintain leased branch sales offices in or near major cities throughout the world, including 34 locations in North America, 20 in Europe, 16 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.

On December 20, 2002, we filed a complaint against Signal Technology Corporation in the United States District Court for the Northern District of Illinois, which we dismissed on February 27, 2003. On February 14, 2003 Signal Technology filed a declaratory judgment suit against us in Superior Court, Boston, Massachusetts, and on March 4, 2003, we filed a complaint against Signal Technology Corporation in the Circuit Court of Cook County, Illinois. On February 13, 2004, we dismissed our complaint in Circuit Court, Cook County, Illinois. From November 6, 2000 through December 6, 2001, Signal Technology issued six purchase orders to purchase low-frequency amplifiers and other electronic components from us and subsequently refused to take delivery of the components. We are claiming damages of approximately \$2.0 million resulting from Signal Technology's refusal to take delivery. Signal Technology's declaratory judgment suit in Massachusetts seeks a ruling that it has no liability to us, but Signal Technology has not asserted any claim against us. We entered into a Settlement Agreement and Mutual Release with Signal Technology effective November 16, 2005. Pursuant to the settlement, we received a cash payment of \$325,000, retained the remaining inventory, and the parties provided mutual releases without any admission of liability. The pending litigation will be dismissed.

In fiscal 2003, two customers of our German subsidiary asserted claims against us in connection with heterojunction field effect transistors we sold to them. We acquired the heterojunction field effect transistors from the manufacturer pursuant to a distribution agreement. The customers claims are based on the heterojunction field effect transistors not meeting the specification provided by the manufacturer. We notified the manufacturer and our insurance carrier of these claims. In fiscal 2005, the claim of one of the two customers was settled without any admission of liability on our part, with a full release from liability and without any material consideration from us, the settlement amount being paid by our insurance carrier. Because our investigation has not been completed, we are unable to evaluate the merits of this claim or the prospects of recovery from the manufacturer or insurance carrier. We intend to vigorously defend this claim and, if we should have any liability arising from this claim, we intend to pursue our claims against the manufacturer and our insurer. As of December 2, 2005, no proceedings have been instituted regarding these claims.

## **Recent Developments**

### *Sale of \$25 Million of 8% Notes*

On November 21, 2005, we sold \$25 million in aggregate principal amount of our 8% notes to qualified institutional buyers in a private placement. We have used the net proceeds from the sale of the 8% notes to repay amounts outstanding under our amended and restated credit agreement. We have agreed to redeem all of our outstanding 7¼% debentures on December 30, 2005 and 8¼% debentures on December 23, 2005 and intend to reborrow amounts under our amended and restated credit agreement to effect these redemptions.

The 8% notes bear interest at a rate of 8% per year, payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2006. The 8% notes mature on June 15, 2011. The 8% notes are unsecured and subordinated to our existing and future senior indebtedness and any secured indebtedness and rank on parity with the notes and all future senior subordinated indebtedness.

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Under the terms of the 8% notes, holders may convert the 8% notes into shares of our common stock at any time prior to their maturity date. We may also elect to automatically convert the 8% notes if the trading price of our common stock exceeds 150% of the conversion price for at least 20 trading days during any 30 trading day period, subject to make-whole payments if we elect to convert the 8% notes prior to December 20, 2008. The initial conversion price is \$10.31 per share, which represents a 25% premium over the closing price of our stock on November 18, 2005. If fully converted, the 8% notes would convert into approximately 2,424,830 shares of our common stock. The conversion price is subject to adjustment in certain circumstances.

The 8% notes are fully redeemable by us at any time after December 20, 2008 at 100% of the principal amount plus accrued and unpaid interest. The 8% notes are also redeemable at the option of the holders upon a change of control of Richardson, termination of trading of our common stock and in certain other circumstances. We have agreed to register the resale of the 8% notes and common stock issuable upon conversion of the 8% notes with the Securities and Exchange Commission. See Description of Certain Other Indebtedness 8% Notes.

### *Identification of Material Weaknesses in Internal Control over Financial Reporting*

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of May 28, 2005 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control Integrated Framework*. Management identified the following material weaknesses in our internal control over financial reporting as of May 28, 2005:

1. *Deficiencies in our control environment.* We did not maintain effective company-level controls as defined in the *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission.
2. *Inadequate controls associated with the accounting for income taxes.* We did not employ personnel with the appropriate level of skill and experience to prepare, document, and review our accounting for income taxes.
3. *Inadequate financial statement preparation and review procedures.* We did not maintain adequate policies and procedures, or employ sufficiently experienced personnel, to ensure that accurate and reliable interim and annual consolidated financial statements were prepared and reviewed on a timely basis.
4. *Deficiency related to the application of accounting literature.* We did not maintain adequate policies and procedures, or employ sufficiently experienced personnel, to ensure appropriate application of Financial Accounting Standards Board Statement (SFAS) No. 52, *Foreign Currency Translation*.

As a result of the aforementioned material weaknesses, we concluded that we did not maintain effective internal control over financial reporting, and we did not have effective disclosure controls and procedures as of May 28, 2005.

The following were changes in our internal control over financial reporting that occurred during the first quarter of fiscal 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In June 2005, we hired a Director of Tax to increase our focus on processes and procedures associated with accounting for income taxes;

We developed a program to provide training for accounting personnel in our foreign subsidiaries;

We enhanced our account reconciliation process to ensure that accounts are being reconciled on a timely basis, the reconciliations are independently reviewed, and any reconciling items are cleared on a timely basis;



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We developed a plan to strengthen our procedures regarding the review and approval of journal entries through system automation;

We implemented formal procedures for financial statement variance analysis and balance sheet reconciliations. The monthly closing schedule is formally communicated to all subsidiaries; and

We improved documentation of management review and reconciliation performance through policies, education and re-enforcement, a listing of employees who reconcile and approve balance sheet account reconciliations, and the implementation of key financial manager checklists.

In order to remediate the material weaknesses identified in internal control over financial reporting and ensure the integrity of our financial reporting processes, we have implemented or are in the process of implementing the measures described above, as well as the following additional actions:

We have engaged outside tax professionals to provide global compliance and reporting services to ensure that we have appropriate resources to conduct timely reviews and evaluations of our current and deferred tax provisions, deferred tax assets and liabilities, and related complex tax issues;

We trained accounting personnel in our European subsidiaries and will continue training our other foreign subsidiaries throughout fiscal 2006;

We have developed a policy related to controls over end-user computing; and

We have hired a Director of Internal Audit to assist us in our ongoing evaluation and monitoring of internal control over financial reporting.

In addition, we continue to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting, and internal control over financial reporting and the importance of identifying areas for improvement and to create and implement new policies and procedures where material weaknesses or significant deficiencies exist. Furthermore, in an effort to improve internal control over financial reporting, we have hired additional accounting expertise and has continued our use of external resources.

See **Risk Factors** **Risks Related to Our Business** If we do not maintain effective internal control over financial reporting, we could be unable to provide timely and reliable financial information and Experts.

*Engagement of Ernst & Young LLP as Independent Registered Public Accounting Firm*

On August 29, 2005, we, with the approval of our audit committee, notified Ernst & Young LLP ( E&Y ) of its selection as our independent registered public accounting firm for the fiscal year ending June 3, 2006. E&Y s engagement became effective on September 12, 2005, coincident with the completion of E&Y s client acceptance procedures and its acceptance of the engagement.

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During each of our two most recent fiscal years and through the date of the report on Form 8-K filed on September 14, 2005 reporting the engagement of E&Y, we did not consult E&Y with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or other matters as set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

E&Y previously served as our auditors from December 1981 until August 21, 2003, when KPMG LLP was engaged. As previously reported on Forms 10-K/A filed on May 20, 2005 and January 30, 2004, we restated our fiscal 2003 and 2002 financial statements that previously had been audited by E&Y. Accordingly, during our 2004 and 2005 fiscal years, E&Y performed audit procedures and audit-related discussions with us regarding these restatements.

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*Reorganization of RFWC and IPG*

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, Industrial Power Group will be designated as the Electron Device Group and the RF & Wireless Communications Group will be 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, improving the geographic sales coverage and driving sales growth by leveraging 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.

*Noncompliance with Loan Covenant*

At September 3, 2005, we were not in compliance with our amended and restated 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 amended and restated credit agreement. The amendment changed the minimum tangible net worth requirement to adjust for the goodwill associated with the Kern acquisition.

**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 December 1, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Edward J. Richardson	63	Chairman of the Board and Chief Executive Officer
Bruce W. Johnson	64	President, Chief Operating Officer and Director
William G. Seils	70	Senior Vice President, General Counsel and Secretary
Robert L. Prince	44	Executive Vice President, Worldwide Sales, Electron Device Group
Gregory J. Peloquin	41	Executive Vice President and General Manager, RF, Wireless & Power Division, formerly RF & Wireless Communications Group
Murray J. Kennedy	44	Executive Vice President and General Manager, Electron Device Group, formerly Industrial Power Group
Wendy Diddell	40	Vice President and General Manager, Security Systems Division
Larry Blaney	47	Vice President and General Manager, Display Systems Group
Pierluigi Calderone	48	Vice President and Director, European Operations
Joseph C. Grill	61	Senior Vice President, Human Resources
Kathleen M. McNally	46	Senior Vice President, Marketing Operations and Customer Support
Gint Dargis	48	Senior Vice President & Chief Information Officer
Larry Duneske	52	Vice President, Worldwide Logistics
David J. DeNeve	37	Senior Vice President and Chief Financial Officer
Arnold R. Allen	73	Director
Jacques Bouyer	77	Director
Scott Hodes	68	Director
Ad Ketelaars	48	Director
John R. Peterson	48	Director
Harold L. Purkey	61	Director
Samuel Rubinovitz	75	Director

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

*Bruce W. Johnson* has been our President, Chief Operating Officer and Director since joining the Company in November 1996. From January 1992 until January 1996, he was President of Premier Industrial Corporation, a New York Stock Exchange listed company that was acquired by Farnell Ltd. in April 1996. Mr. Johnson 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.

*William G. Seils* has been a Senior Vice President since January 1992 and has served as our General Counsel and Secretary since May 1986. Prior to joining the Company in 1986, Mr. Seils was a partner in the law firm of Arvey, Hodes, Costello and Burman, Chicago, Illinois.

*Robert L. Prince* has been our Executive Vice President of Worldwide Sales, Electron Device Group since September 2005 and our Executive Vice President of Worldwide Sales from February 1998 to September 2005 and was Vice President of Worldwide Sales from November 1996 until February 1998. Mr. Prince was Vice President of Sales from November 1991 until November 1996 and held several other positions since joining the Company in November 1978.

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*Gregory J. Peloquin* has been our Executive Vice President and General Manager of the RF & Wireless Communications Group (now RF, Wireless & Power Division) since January 2002. Prior to that, he was Vice President of the RF & Wireless Communications Group since November 1999 when he rejoined the Company. Mr. Peloquin first joined the Company 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 the Company in 1999.

*Murray J. Kennedy* has been our Executive Vice President and General Manager of the Industrial Power Group (now 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 the Company in March 1994. Prior thereto, he held positions with Litton Electron Devices Group and ITT Electron Devices Division.

*Wendy Diddell* has been our 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 our Vice President and General Manager of the Display Systems Group since February 2005. Prior thereto, Mr. Blaney was a Vice President of our Display Products Group Engineered Solutions since 2004 and Vice President of Sales and Marketing of our Display Products Group since joining us in 1998 in connection with our acquisition of his company, Eternal Graphics.

*Pierluigi Calderone* has been our Vice President and Director of European Operations since 1998. Mr. Calderone joined the Company 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 our Senior Vice President of Marketing Operations and Customer Support since July 2000. Ms. McNally served as Marketing Services Manager from 1986 until 1989 and was named Vice President and Corporate Officer of Marketing Operations in 1989 until 2000. She has held various positions within Marketing since joining the Company in 1979.

*Gint Dargis* has been our Senior Vice President and Chief Information Officer since October 2005 and Vice President and Chief Information Officer from March 2003 to October 2005. Since 1999, Mr. Dargis has held similar positions at Hub Group Distribution Services (distribution service e-business) and Publicis Frankel (a lead promotion and marketing agency). He joined Publicis Frankel as Director of Applications in 1997. Throughout his career, Mr. Dargis has pursued a career-long focus in information technology management with companies ranging from Ameritech to Alberto-Culver to Zurich Insurance.

*Larry Duneske* has been our Vice President of Worldwide Logistics since January 1999. Prior to that, he held logistics management positions since joining the Company in December 1996. Prior to joining the Company, Mr. Duneske was the Director of Distribution with Newark Electronics and Simon & Schuster. In addition, he has held various strategic planning, operations management, and engineering positions with IBM, Ford Motor Company, and ROLM.

*David J. DeNeve* has been Senior Vice President and Chief Financial Officer since joining the Company in June 2005. From March 2004 until joining the Company, Mr. DeNeve was on a leave for personal reasons. Prior to that, Mr. DeNeve was employed by Material Sciences Corporation as Vice President and Controller from

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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.

*Arnold R. Allen* has been a director since 1986. He joined the Company as our President and Chief Operating Officer in September 1985. He retired as President of the Company in September 1989. Since his retirement, Mr. Allen has been a management consultant to us and presently provides management consulting services to us. He served as Chairman of the Strategic Planning Committee of our board of directors from April 1991 until April 1992.

*Jacques Bouyer* has been a director since 1990. He served as Chairman of the Board of Philips Components of Paris, France, engaged in the manufacture and sale of electronic components and a subsidiary of N.V. Philips of The Netherlands, from April 1990 until January 1994 when he became honorary Chairman of the Board and a Director until December 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 since January 1990 until December 2002. He has been Chairman and a board member of Bethel-Paris, a small internet start-up company since July 2002.

*Scott Hodes* has been a director since 1983. He has been a partner in the law firm of Bryan Cave LLP since January 2004 and for more than five years prior to that he was a partner in the law firm of McGuire Woods Ross & Hardies and its predecessor Ross & Hardies.

*Ad Ketelaars* has been a director since 1996. He is the Chief Executive Officer of Philips Business Communications, a position he has held since March 2003. He was Vice President and Managing Director of Richardson Electronics Europe from May 1993 until July 1996. Mr. Ketelaars 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* has been a director since 1999. He 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 2002. Previously he was a Managing Director of Tucker Anthony Inc., the Co-Head of its Tucker Anthony Sutro Capital Markets ( TASC ) division, which provided investment banking services to the Company, 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* has been a director since 1994. He was President of Forum Capital Markets from May 1997 until the company was acquired by First Union Securities in 2000, upon which he became the Managing Director of First Union Securities until his retirement in October 2001. Mr Purkey was Senior Managing Director of Forum Capital from May 1994 until May 1997. 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 Repron Electronics, Inc., and is Chairman of its Audit Committee.

*Samuel Rubinovitz* has been a director since 1984. He 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 Compensation Committee; and a director of Kronos, Inc and a member of its Compensation Committee.



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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**

Directors who are not our employees receive a quarterly fee of \$3,000 and a fee of \$500 for each board or committee meeting (other than audit committee meetings, for which the fee is \$1,000) attended in person or by telephone, plus travel expenses. Mr. Peterson, as chairman of our audit committee, receives an additional quarterly fee of \$1,500.

In addition, each current Non-Employee Director, as referred to below, has received a grant of options to acquire 25,000 shares of our common stock, upon election to the board, at exercise prices ranging from \$5.25 per share to \$12.875 per share (the fair market value on the date of grant) under our Stock Option Plan for Non-Employee Directors, which we refer to as the Directors Plan, or our 1996 Stock Option Plan for Non-Employee Directors, which we refer to as the 1996 Directors Plan or our 2006 Stock Option Plan for Non-Employee Directors, which we refer to as the 2006 Directors Plan.

Since 1996, each current Non-Employee director received a grant of an option under our 1996 Directors Plan to acquire an additional 5,000 shares of our common stock each April beginning at the later of 1996 or five years after first elected as a director at exercise prices ranging from \$5.375 per share to \$12.875 per share. Under the Directors Plan, the 1996 Directors Plan and the 2006 Directors Plan, options were granted to any director who was not an officer or employee of us or any of our subsidiaries or affiliates and who had not been such for a period of one year prior to his first being elected to the board, which we refer to as a Non-Employee Director. Under our 2006 Directors Plan, each current director who is not an employee of us or any of our subsidiaries or affiliates receives a grant of options to acquire 5,000 shares at the end of each October. In addition, a newly elected director who is not so employed receives an initial grant of options to acquire 25,000 shares upon election to the board and subsequent annual grants of 5,000 shares beginning five years after such first election to the board.

Options issued under the Directors Plan, 1996 Directors Plan and the 2006 Directors Plan are intended to be non-qualified stock options, not entitled to special tax treatment under Section 422A of the Internal Revenue Code of 1986, as amended, from time to time. The Directors Plan, the 1996 Directors Plan and the 2006 Directors Plan are administered by our board of directors, which has the sole responsibility for construing and interpreting those plans. Each option granted is evidenced by an option agreement between the optionee and us and, subject to the provisions of the Directors Plan, the 1996 Directors Plan or the 2006 Directors Plan, contains such terms and conditions as may be approved by the board. The purchase price of each share that may be purchased upon exercise of an option is the fair market value of the share on the date the option is granted. These options are exercisable for a period of approximately ten years. Under the Directors Plan, any new Non-Employee Director elected or appointed was granted an option to purchase 25,000 shares of our common stock on the date such director took office. All options granted under the Directors Plan vest over a five-year period from the date of grant with 20% of the option shares becoming first exercisable on each anniversary of the grant date.

The Directors Plan was terminated with respect to future grants on April 10, 1996. Under the 1996 Directors Plan, any new Non-Employee Director elected or appointed after April 30, 1996 was granted an option to purchase 25,000 shares of our common stock on the date such director takes office. All such options granted to new Non-Employee Directors vest over a five-year period from the date of grant with 20% of the option shares becoming first exercisable on the anniversary of the grant date. On each April 30 (after April 30, 1996), which is on or after the fifth anniversary of a Non-Employee Director's initial election as a director, such director was granted an additional option for 5,000 shares (subject to adjustment). The board terminated the 1996 Directors Plan with respect to future grants on June 16, 2005.

Under the 2006 Directors Plan, options shall be granted to non-employee members of the board to purchase not more than an aggregate of 400,000 shares of our common stock, subject to adjustment in accordance with the provisions of the 2006 Directors Plan. Such shares may be either authorized but unissued shares or shares which have been or may be re-acquired by us, including treasury shares. The purpose of the 2006 Directors Plan is to



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promote our long-term interest by attracting and retaining qualified and experienced persons as non-employee directors and by providing additional incentive for such directors to work for our success and growth through continuing ownership of our stock.

The Directors Plan, the 1996 Directors Plan and the 2006 Directors Plan provide, among other things, that the option of any optionee, whose status as a director terminates because of retirement or removal from the board within one year after a change of control, as defined in such plans, will become fully exercisable with respect to all shares covered thereby and not previously purchased upon exercise of the option and will remain fully exercisable until the option expires by its terms.

Mr. Allen has non-qualified stock options for 11,781 shares of common stock and 11,782 shares of Class B common stock at an exercise price of \$12.95 per share. Mr. Allen has been a management consultant to us and presently provides management consulting services to us. In fiscal 2005, he received payments of \$14,001 from us and \$7,000 to date in fiscal 2006. We expect to continue to retain Mr. Allen as a management consultant.

**Table of Contents****EXECUTIVE COMPENSATION**

The following table sets forth the annual and long-term compensation for our chief executive officer and our four highest paid executive officers (named executive officers) for fiscal 2005, as well as the total compensation paid to each such individual for our two prior fiscal years.

**Summary Compensation Table**

Name and Principal Position	Year	Long-Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	Restricted Stock Awards <sup>(2)</sup>	Stock Options/SARs	Long-Term Incentive Payouts	All Other Compensation <sup>(3)</sup>
Edward J. Richardson CEO and Chairman of the Board	2005	\$ 461,356	\$	\$	\$		\$	\$ 4,100
	2004	444,845	120,660					6,840
	2003	436,980						4,000
Bruce W. Johnson President and Chief Operating Officer	2005	415,048			105,200	12,500		4,100
	2004	399,392	153,066		129,000			6,840
	2003	391,263	80,575		85,800			4,000
Dario Sacomani <sup>(4)</sup> Senior Vice President	2005	295,358	56,486			12,500		4,100
	2004	284,738	109,993					6,840
	2003	258,462	72,415		150,003	50,000		4,000
William G. Seils Senior Vice President, General Counsel and Secretary	2005	219,075	83,111			6,975		4,100
	2004	212,352	98,440					6,840
	2003	209,142	70,014					4,000
Robert L. Prince Executive Vice President, Worldwide Sales	2005	223,377	94,802			7,125		4,100
	2004	211,239	92,944					6,840
	2003	205,250	73,806					4,000

(1) While officers enjoy certain perquisites, such perquisites do not exceed the lesser of \$50,000 or 10% of such officer's salary and bonus except as shown.

(2) The restricted stock issued to Mr. Johnson vested at the date of grant and that issued to Mr. Sacomani vests in three equal annual installments. The number of shares and fair market value of unvested restricted stock as of May 28, 2005 held by Mr. Sacomani was 4,700 shares and \$41,360, respectively, based on a closing price of \$8.80 per share of our common stock on the Nasdaq National Market on May 27, 2005, the last trading day before May 28, 2005. Holders of restricted stock are entitled to vote such shares and receive dividends.

(3) These amounts represent our discretionary and 401(k) matching contributions to our profit sharing plan.

(4) Until taking a medical leave of absence in April 2005, Mr. Sacomani also served as our chief financial officer.

**Stock Option Awards**

The following table summarizes options granted during fiscal year 2005 to the named executives at fiscal year end:

## Option Grants in Last Fiscal Year

<u>Name</u>	<u>Options Granted (1)(2)</u>	<u>% of Total Options Granted to Employees in FY05</u>	<u>Exercise or Base Price (\$/sh)</u>	<u>Expiration Date</u>	<u>Fair Value at Grant Date(3)</u>
Edward J. Richardson			\$		\$
Bruce W. Johnson	12,500	4.3%	7.750	9/10/2014	37,000
Dario Sacomani	12,500	4.3%	7.750	9/10/2014	37,000
William G. Seils	6,975	2.4%	7.750	9/10/2014	20,646
Robert L. Prince	7,125	2.5%	7.750	9/10/2014	21,090

(1) Options granted become exercisable in annual increments of 20%, beginning September 10, 2005.

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- (2) Options granted under the option plan are exercisable for a period of up to ten years from the date of grant. Options terminate upon the optionee's termination of employment with us, except under certain circumstances.
- (3) The fair value of the option at the grant date was calculated using the Black-Scholes option-pricing model, using the following assumptions: \$.16 annual dividend per share, expected annual standard deviation of stock price of 47% and a risk-free interest rate of 3.7%.

**Stock Option Exercises and Holdings**

The following table summarizes options exercised during fiscal year 2005 and presents the value of the unexercised options held by the named executive officers as of May 28, 2005:

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR END OPTION VALUES**

Name	Options Exercised <sup>(1)</sup>		Number of Securities Underlying Unexercised Options held at May 28, 2005		Value of Unexercised, In-the-money Options at May 28, 2005 <sup>(2)</sup>	
	Shares Acquired	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
		\$			\$	\$
Edward J. Richardson		\$				
Bruce W. Johnson			150,000	32,500	127,000	30,525
Dario Sacomani			33,333	29,167		13,125
William G. Seils			75,370	15,555	89,814	17,033
Robert L. Prince			91,000	16,125	104,785	17,921

(1) We permit broker-assisted cashless exercise of options by all optionees, including executive officers.

(2) Represents the difference between \$8.80 per share, which was the closing price of our common stock on May 27, 2005, the last trading day before May 28, 2005, and the exercise price of the options.

**Employment Agreements**

Bruce W. Johnson became our president and chief operating officer on November 12, 1996 pursuant to an agreement dated as of November 7, 1996, which provides for an annual base salary subject to adjustment in certain circumstances, and a bonus if our earnings per share (excluding extraordinary charges) for the fiscal year exceeds our earnings per share for the prior fiscal year with the amount of such bonus, if any, determined by our actual earnings per share performance in relation to our budgeted earnings per share for the fiscal year. Mr. Johnson's cash bonus for fiscal year 2005 was \$0. The agreement also provides for payments to Mr. Johnson for one year equal to his salary and bonus and other employee benefits if his employment is terminated under certain circumstances, including, without cause or from a change-in-control, or a breach by us. During his employment term and for two years after termination for any reason, Mr. Johnson is prohibited from contacting any individual or entity that was one of our customers or suppliers during his last 12 months of employment with us. The agreement is for an indefinite term, during which Mr. Johnson is employed on an at-will basis.

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Pursuant to a three-year employment agreement dated May 31, 2002, Dario Sacomani became our senior vice president and chief financial officer. Mr. Sacomani was eligible to receive a bonus of up to 50% of his base salary if performance goals were met. Fifty percent of the bonus was determined by our earning performance and 50% was determined by Mr. Sacomani meeting goals for the year established by the chief executive officer. Mr. Sacomani also received an option for 50,000 shares (with an exercise price equal to 100% of fair market value on the date of grant) and a restricted stock award for 14,098 shares that vested in equal amounts over three years. Mr. Sacomani's cash bonus for fiscal year 2005 was \$56,486. On July 18, 2005, Mr. Sacomani and the



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Company agreed to terminate Mr. Sacomani's employment as an executive officer. He remains as an employee until December 31, 2005 or his earlier acceptance of other employment at a salary of \$11,699 every two weeks.

Robert L. Prince is employed as our executive vice president of worldwide sales pursuant to an employment agreement dated June 6, 2000, pursuant to which he receives a base salary which is reviewed annually and a bonus of 50% of his base salary if performance goals established annually by us are met. Mr. Prince's cash bonus for fiscal year 2005 was \$94,802. The agreement provides for payment to Mr. Prince for one year equal to his salary and bonus for the 12-month period prior to termination in the event of termination of employment without cause or by Mr. Prince within 180 days after a sale to or merger into another company or a change of control. During his employment term and for one year after termination for any reason, Mr. Prince is prohibited from competing against us. The agreement is for an indefinite term, during which Mr. Prince is employed on an at-will basis.

## **Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee during fiscal 2005 were Messrs. Bouyer, Hodes, and Rubinovitz. The members of the Stock Option Committee during fiscal 2005 were Messrs. Bouyer and Rubinovitz. See [Related Party Transactions](#) below.

## **Related Party Transactions**

Mr. Richardson controls \$1,122,000 principal amount of the Company's 7/4% debentures and \$1,309,000 principal amount of the Company's 8 1/4% debentures as of August 23, 2005. We have agreed to redeem all of our outstanding 7 1/4% debentures on December 30, 2005 and 8 1/4% debentures on December 23, 2005.

Mr. Hodes is a partner in the law firm of Bryan Cave LLP, which firm provided legal services to us in fiscal 2005 and continues to provide legal services to us in fiscal 2006. Mr. Hodes was a partner in the law firm of McGuire Woods Ross & Hardies, which firm provided legal services to us in fiscal 2002, 2003 and 2004.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information, as of August 23, 2005 (except as noted), concerning the beneficial ownership of our common stock and Class B common stock, before and as adjusted to reflect the sale of shares offered by this prospectus, for:

each of our named executive officers;

each of our directors;

all of our directors and executive officers as a group; and

each person who is known by us to be the beneficial owner of more than 5% of our common stock.

Because Class B common stock is convertible into common stock, the number of shares listed as owned under the common stock column in the table also includes the number of shares listed under the common stock column. Except as otherwise indicated below, each of the entities or persons named in the table has sole voting and investment power with respect to all shares of common stock beneficially owned by him, her or it. To the extent any of the persons listed below sells notes in this offering, the number of shares they will be deemed to own will decrease.

	Number of	Percent of Class	Percent of Class	Number of Shares of	Percent of Class	Percent of Class	Percent of Total Voting	
							if Class Voting Not Applicable	
							Before Offering(3)	After Offering(3)
	Shares of Common(1)(2)	Before Offering	After Offering	Class B Common(3)	Before Offering	After Offering		
Edward J. Richardson	3,232,722(4)	18.49%	18.49%	3,106,442	99.58%	99.58%	68.44%	68.44%
Bruce W. Johnson								