

RICHARDSON ELECTRONICS LTD/DE  
Form 424B4  
July 06, 2004

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Filed pursuant to Rule 424(b)(4)  
File Number 333-113568

### 3,000,000 Shares of Common Stock

We are offering 3,000,000 shares of our common stock. Our common stock is listed on The Nasdaq National Market and trades under the ticker symbol "RELL." On July 1, 2004, the last reported sale price of our common stock was \$10.67 per share. In addition to the class of common stock offered by this prospectus, which has one vote per share and of which there were 11,089,211 shares outstanding as of July 1, 2004, we also had outstanding 3,168,922 shares of Class B common stock, substantially all of which are held by our Chief Executive Officer and Chairman of the Board, Edward J. Richardson. Our Class B common stock has ten votes per share and may generally vote on all matters submitted to a vote of the holders of our common stock.

We also expect to offer to exchange any and all of our outstanding 7<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Debentures due 2006 and 8<sup>1</sup>/<sub>4</sub>% Convertible Senior Subordinated Debentures due 2006 that are validly tendered and not withdrawn for an equal principal amount of new convertible senior subordinated notes, which we expect will mature in 2011. The exchange offer, if commenced, would be made by a separate prospectus and the related letter of transmittal. The exchange offer would not be contingent upon the closing of this offering. We expect to commence the exchange offer after the closing of this offering. See "The Exchange Offer."

**Investing in our common stock involves risks.  
See "Risk Factors" beginning on page 15.**

	Per Share	Total
Public Offering Price	\$ 10.250	\$ 30,750,000
Underwriting Discounts and Commissions	\$ .538	\$ 1,614,000
Proceeds to Richardson Electronics, Ltd.	\$ 9.712	\$ 29,136,000

**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.**

We have granted the underwriters a 30-day option to purchase up to 450,000 additional shares of common stock to cover over-allotments. The underwriters expect to deliver the shares of common stock to purchasers on or about July 8, 2004.

**Jefferies & Company, Inc.**

**William Blair & Company**

# **KeyBanc Capital Markets**

The date of this Prospectus is July 1, 2004.

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## TABLE OF CONTENTS

	<u>Page</u>
Prospectus Summary	1
Risk Factors	15
Forward-Looking Statements	25
Use of Proceeds	26
Market and Market Prices	26
Dividend Policy	27
Capitalization	28
Dilution	30
Selected Consolidated Financial Information	31
Management's Discussion and Analysis of Financial Condition and Results of Operations	33
The Exchange Offer	52
Our Business	53
Management	62
Executive Compensation	67
Principal Stockholders	70
Description of Our Capital Stock	73
Material United States Federal Income Tax Consequences to Non-United States Holders	79
Underwriting	82
Legal Matters	85
Experts	86
Where You Can Find More Information	86
Index to Consolidated Financial Statements	F-1

You should rely only on the information contained in this prospectus. We have not 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.

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.

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 the new convertible senior subordinated notes, which we expect will mature in 2011, that we expect to offer in the exchange offer; references to the "8<sup>1</sup>/<sub>4</sub>% debentures" mean our outstanding 8<sup>1</sup>/<sub>4</sub>% Convertible Senior Subordinated Debentures due June 15, 2006; references to the "7<sup>1</sup>/<sub>4</sub>% debentures" mean our outstanding 7<sup>1</sup>/<sub>4</sub>% Convertible Subordinated Debentures due December 15, 2006; and references to our "outstanding debentures" mean the 7<sup>1</sup>/<sub>4</sub>% debentures and the 8<sup>1</sup>/<sub>4</sub>% debentures, collectively.

## 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, or RF, and wireless communications, industrial power conversion, 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. We estimate that sales involving engineered solutions are in the range of approximately 50% of our total sales, consisting 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 to be 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 and Wireless Communications Group;

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.

*RF and Wireless Communications Group*

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Our RF and Wireless Communications Group serves the expanding global RF and wireless communications market, including infrastructure and wireless networks, as well as the fiber optics 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 and wireless components to the development of engineered solutions for their system requirements.



We expect continued growth in wireless applications as the demand for all 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.

#### *Industrial Power Group*

Our Industrial Power Group provides engineered solutions for customers in the steel, automotive, textile, plastics, semiconductor manufacturing, and transportation industries. 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.

This group serves the industrial market's need for both vacuum tube and solid-state technologies. We provide replacement products for systems using electron tubes as well as design and assembly services for new systems employing power semiconductors. As electronic systems increase in functionality and become more complex, we believe the need for intelligent, efficient power management will continue to increase and drive power conversion demand growth.

#### *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 AudioTrak*, and *Elite National Electronics* brands, including advanced equipment such as digital video recorders, Internet-based amplifiers, covert cameras, speed dome cameras, and telephone-control-based closed circuit television systems. 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.

### **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 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 Industrial Power Group customers from electron tubes to newer solid-state technologies. Sales of products other than electron tubes represented approximately 83% of our sales in fiscal 2003 compared to 71% in fiscal 1999. 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. The recent economic downturn increased the trend to outsourcing engineering as companies focused 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. We serve over 100,000 active customers worldwide. We consider active customers to be those customers to whom we have made a sale in the past seven years. We estimate seven years to be the lifecycle for several of our tube-based product lines. In fiscal 2004, 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. Our strategic business units' goals are now based on return on assets. Additional programs are ongoing, including a significant investment in enterprise resource planning software scheduled for implementation during this calendar year.

*Grow Through Acquisitions.* We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 34 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:

TRL Engineering (amplifier pallet design and engineering now part of our RF and Wireless Communications Group) in 1999;

Pixelink (display systems integration now part of our Display Systems Group) in 1999;

Adler Video (security systems now part of our Security Systems Division) in 1999;

Celti (fiber optic communication now part of our RF and Wireless Communications Group) in 2001;

Aviv (design-in services for active and passive components now part of our RF and Wireless Communications Group) in 2001; and

Sangus (RF and microwave applications now part of our RF and Wireless Communications Group) in 2002.

## Earnings Guidance

Our bookings (which we define to mean purchase orders which we have received from, or which have been communicated by, a customer) and backlog (which we define to mean bookings remaining and scheduled to be shipped within the next fiscal quarterly period) continued to strengthen throughout fiscal 2004, primarily associated with wireless growth and broad based increases in industrial demand for power products. At the end of the fourth quarter of fiscal 2004, backlog scheduled for shipment within the next three months has increased for four consecutive quarters and bookings have increased for five consecutive quarters. Based on an assumed continuation of these trends and sales of new products, we currently anticipate growth in revenue and earnings for fiscal 2005. We currently estimate that revenues will range from \$580 million to \$620 million. We expect gross margin to be in the range of 24.7% to 25.3% with operating expenses between 20.5% and 21.0% of sales. We estimate that net income will be between \$8.9 million and \$10.3 million and that earnings per diluted share will be between \$0.60 to \$0.70, excluding the effect of the issuance of shares we are offering by this prospectus and the potential exchange offer.

In developing these estimates, we gave some weight to the amounts of recent percentage increases in backlog and bookings, which exceeded the anticipated growth rates in revenues and earnings per diluted share for fiscal 2005. Bookings in the fourth quarter of fiscal 2004 increased approximately 35% from the fourth quarter of fiscal 2003. Backlog at the end of the fourth quarter of fiscal 2004 increased approximately 55% compared to the prior year period end. However, due largely to the early stage of the possible economic recovery, and the fact that backlog has historically represented less than one-third of revenues in any fiscal quarter, we do not believe that the actual percentage increases in bookings and backlog are likely to result in comparable increases in annual revenues. Instead, we view the increases in bookings and backlog as providing an indication there is a reasonable possibility that the revenues will approximate their average historical seasonal pattern, based on the period from fiscal 1993 through 2003. We experience moderate seasonality in our business and typically realize lower sequential revenues in our first and third fiscal quarters, reflecting decreased transaction volume in the summer and holiday months. Conversely, we typically realize higher sequential revenues in the second and fourth fiscal quarters due to the absence of holidays and vacations. On an average sequential quarter basis during the period from fiscal 1993 through 2003, our first quarter revenues decreased approximately 5%, our second quarter revenues increased approximately 10%, our third quarter revenues decreased approximately 3% and our fourth quarter revenues increased approximately 9%. In fiscal 2004, the sequential fourth quarter sales increase is estimated to be approximately 14%. In any event, our estimates are subject to risks and uncertainties that could cause actual results to differ materially from those estimates, as described in "Risk Factors" and "Forward-Looking Statements."

## Recent Developments

### *Results for Fiscal Fourth Quarter and Fiscal Year*

On June 21, 2004, we announced our results for our fiscal fourth quarter and our fiscal year ended May 29, 2004. The information set forth below with respect to our fiscal fourth quarter and fiscal year ended May 29, 2004 is based on unaudited financial information and may be subject to change upon completion of our annual audit. We have no reason to believe that final audited financial results at or for the year ended May 29, 2004 will differ materially from the information set forth below.

*Fourth Quarter Fiscal 2004 Results.* Sales in the fourth quarter of fiscal 2004 were a record \$145.4 million, an increase of 22.2% from the prior year's fourth quarter and marked the eighth consecutive quarter of year over year growth. Net income was \$2.4 million, or \$0.17 per share, compared to a net loss of \$11.3 million, or \$0.82 per share, in the fourth quarter of fiscal 2003. The prior year's fourth quarter loss included after-tax charges of \$11.9 million principally related to inventory write-downs, restructuring charges and incremental tax provisions.

Sales in all strategic business units grew in the quarter over the prior year led by RF and Wireless Communications sales growth of 30.4% to \$67.9 million with strong growth in passive, interconnect, network access, and infrastructure sales, particularly in Asia/Pacific. Industrial Power Group sales grew 29.3% to \$31.5 million led by increased power component demand. Sales for the Security Systems Division reached \$25.4 million in the quarter, up 13.1% from the prior year's fourth quarter with strong growth in the United States. Display Systems Group sales increased 3.7% to \$18.7 million with particular strength in specialty display sales.

Asia/Pacific led all geographic areas for us with 53.6% sales growth in the quarter to \$32.9 million with exceptional wireless infrastructure growth. North America sales grew 19.6% to \$76.1 million led by increased passive and interconnect demand. Sales in Europe reached \$30.7 million in the quarter, up 11.0% from the prior year, with across the board growth as all strategic business units increased sales. Latin America sales declined 9.5% to \$5.0 million mostly due to the completion of a large broadcast project in the prior year.

*Fiscal 2004 Results.* For the full fiscal year, sales reached a record \$520.1 million, an increase of 12.0% from fiscal 2003. Net income was \$6.0 million, or \$0.42 per share, compared to a net loss of \$28.0 million, or \$2.03 per share, in fiscal 2003. The prior year's loss included the charges noted above for the fourth quarter and a cumulative effect of an accounting change of \$17.9 million, net of tax.

Sales for all strategic business units reached record levels for the year led by RF & Wireless Communications with sales of \$231.4 million, an increase of 13.2% from fiscal 2003 as passive, interconnect and network access sales experienced strong growth. Industrial Power Group sales grew 18.0% to \$112.7 million led by increased power component demand. Sales for the Security Systems Division 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 United States, principally due to an increase in digital video recorder sales. Display Systems Group sales reached \$66.5 million in fiscal 2004, an increase of 3.5% over the prior year, with strength in the specialty display and medical monitor businesses.

Geographically, our sales in Asia/Pacific and Europe reached record levels for fiscal 2004. Asia/Pacific sales grew 33.2% over fiscal 2003 to \$104.1 million led by strong wireless infrastructure and network access sales growth. Sales in Europe reached \$116.8 million, an increase of 13.3% from the prior year, with increased network access and industrial power demand. North America sales grew to \$275.6 million, up 6.2% from fiscal 2003, led by security systems sales growth. Sales in Latin America declined 2.2% to \$20.1 million as decreased broadcast demand was partially offset by increased industrial power demand.

## Consolidated Condensed Statements of Operations

Twelve Months Ended May 29, 2004

(In thousands, except per share amounts, unaudited)

	Three Months		Twelve Months	
	FY 2003	FY 2004	FY 2003	FY 2004
Net sales	\$ 118,935	\$ 145,374	\$ 464,517	\$ 520,069
Cost of products sold	104,114	109,015	365,427	392,117
Gross margin	14,821	36,359	99,090	127,952
Selling, general and administrative expenses	26,594	30,104	100,749	108,545
Operating income (loss)	(11,773)	6,255	(1,659)	19,407
Other expenses, net	3,336	2,903	11,484	10,837
Income (loss) before income tax and cumulative effect of accounting change	(15,109)	3,352	(13,143)	8,570
Income tax provision (benefit)	(3,838)	916	(3,012)	2,537
Income (loss) before cumulative effect of accounting change	(11,271)	2,436	(10,131)	6,033
Cumulative effect of accounting change, net of tax <sup>(1)</sup>			(17,862)	
Net income (loss)	\$ (11,271)	\$ 2,436	\$ (27,993)	\$ 6,033
<b>Income (loss) per share basic:</b>				
Income (loss) per share before cumulative effect of accounting change	\$ (.82)	\$ .17	\$ (.73)	\$ .43
Cumulative effect of accounting change, net of tax			(1.30)	
Net income (loss) per share	\$ (.82)	\$ .17	\$ (2.03)	\$ .43
Average shares outstanding	13,860	14,153	13,809	14,040
<b>Income (loss) per share diluted:</b>				
Income (loss) per share before cumulative effect of accounting change	\$ (.82)	\$ .17	\$ (.73)	\$ .42
Cumulative effect of accounting change, net of tax			(1.30)	
Net income (loss) per share	\$ (.82)	\$ .17	\$ (2.03)	\$ .42
Average shares outstanding	13,860	14,553	13,809	14,418
Dividends per common share	\$ .04	\$ .04	\$ .16	\$ .16

- (1) Effective June 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets" and as a result recorded a cumulative effect adjustment of \$17,862, net of tax of \$3,725 to write-off impaired goodwill.

## Sales and Gross Margin

## Fourth Quarter Fiscal 2004

(In thousands, unaudited)

## By Business Unit:

	Sales			Gross Margin			
	FY 2003	FY 2004	% Change	FY 2003	GM% of Sales	FY 2004	GM% of Sales
<b>Fourth Quarter</b>							
RF and Wireless Communications	\$ 52,050	\$ 67,896	30.4%	\$ 11,608	22.3%	\$ 15,150	22.3%
Industrial Power Group	24,359	31,505	29.3%	7,287	29.9%	9,964	31.6%
Security Systems Division	22,489	25,438	13.1%	5,633	25.0%	6,626	26.0%
Display Systems Group	18,022	18,696	3.7%	4,241	23.5%	4,973	26.6%
Other	2,015	1,839		(13,948)		(354)	
<b>Total</b>	<b>\$ 118,935</b>	<b>\$ 145,374</b>	<b>22.2%</b>	<b>\$ 14,821</b>	<b>12.5%</b>	<b>\$ 36,359</b>	<b>25.0%</b>

## Fiscal Year

RF and Wireless Communications	\$ 204,427	\$ 231,389	13.2%	\$ 45,687	22.3%	\$ 52,340	22.6%
Industrial Power Group	95,508	112,737	18.0%	29,523	30.9%	34,694	30.8%
Security Systems Division	92,090	101,979	10.7%	22,939	24.9%	26,045	25.5%
Display Systems Group	64,191	66,452	3.5%	16,218	25.3%	17,105	25.7%
Other	8,301	7,512		(15,277)		(2,232)	
<b>Total</b>	<b>\$ 464,517</b>	<b>\$ 520,069</b>	<b>12.0%</b>	<b>\$ 99,090</b>	<b>21.3%</b>	<b>\$ 127,952</b>	<b>24.6%</b>

## By Geographic Area:

	Sales			Gross Margin			
	FY 2003	FY 2004	% Change	FY 2003	GM% of Sales	FY 2004	GM% of Sales
<b>Fourth Quarter</b>							
North America	\$ 63,599	\$ 76,066	19.6%	\$ 16,633	26.2%	\$ 19,562	25.7%
Europe	27,676	30,715	11.0%	7,679	27.7%	8,804	28.7%
Asia/Pacific	21,456	32,948	53.6%	4,695	21.9%	7,077	21.5%
Latin America	5,490	4,968	-9.5%	1,220	22.2%	1,324	26.7%
Corporate	714	677		(15,406)		(408)	
<b>Total</b>	<b>\$ 118,935</b>	<b>\$ 145,374</b>	<b>22.2%</b>	<b>\$ 14,821</b>	<b>12.5%</b>	<b>\$ 36,359</b>	<b>25.0%</b>

## Fiscal Year

North America	\$ 259,640	\$ 275,622	6.2%	67,863	26.1%	\$ 71,894	26.1%
Europe	103,129	116,820	13.3%	28,387	27.5%	33,709	28.9%



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	Sales			Gross Margin			
Asia/Pacific	78,146	104,068	33.2%	17,895	22.9%	23,304	22.4%
Latin America	20,523	20,074	-2.2%	5,274	25.7%	4,869	24.3%
Corporate	3,079	3,485		(20,329)		(5,824)	
Total	\$ 464,517	\$ 520,069	12.0%	\$ 99,090	21.3%	\$ 127,952	24.6%

**NOTE:** Fiscal 2003 data has been reclassified to conform with the fiscal 2004 presentation. The modifications include:  
 reclassifying broadcast tubes from RF and Wireless Communications Group to Industrial Power Group; and  
 reclassifying direct export and a portion of Corporate to the identified geographic areas based on ship to location.  
 Europe includes sales and gross margins to Middle East and Africa.  
 Corporate consists of freight and other non-area specific sales and gross margins.

## Consolidated Condensed Balance Sheets

(In thousands)

	May 31, 2003	May 29, 2004
		(unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 16,874	\$ 16,927
Accounts receivable, net	85,355	106,130
Inventories	95,896	92,297
Other	26,320	19,739
<b>Total current assets</b>	<b>224,445</b>	<b>235,093</b>
Property, plant and equipment, net	31,088	30,589
Goodwill and intangible assets	6,129	6,726
Other assets	3,269	13,309
<b>Total assets</b>	<b>\$ 264,931</b>	<b>\$ 285,717</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 23,660	\$ 33,473
Other accrued liabilities	16,880	18,663
Current portion of long-term debt	46	4,027
<b>Total current liabilities</b>	<b>40,586</b>	<b>56,163</b>
Long-term debt	138,396	133,813
Other liabilities	10,318	11,631
<b>Total liabilities</b>	<b>189,300</b>	<b>201,607</b>
Stockholders' equity	75,631	84,110
<b>Total liabilities and equity</b>	<b>\$ 264,931</b>	<b>\$ 285,717</b>

**NOTE:** May 31, 2003 data has been reclassified to conform with the May 29, 2004 presentation.

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

In connection with the audit of our financial statements for the fiscal year ended May 29, 2004, KPMG LLP, our independent auditors, which we refer to as "KPMG," discussed with the Audit Committee a number of issues that may constitute material weaknesses in our internal control over financial reporting. Although these issues were identified by KPMG as material weaknesses in the meeting with the Audit Committee, it has informed us that its presentation did not constitute a formal or definitive notice to us that material weaknesses exist. KPMG has indicated that it is still in the process of completing its annual audit, but given the information it currently possesses, KPMG expects to deliver a letter to us at the conclusion of its audit reporting the existence of six material weaknesses in internal control. We expect that the audit will be concluded in July 2004.

Ernst & Young LLP, which we refer to as "E&Y," audited our financial statements for our 2001, 2002 and 2003 fiscal years. We dismissed E&Y and appointed KPMG as our independent auditors in August 2003, as described under "Experts" beginning on page 86. KPMG has not completed an audit of, or issued an audit report with respect to, any of the financial statements included in this prospectus.

KPMG has indicated to both the Audit Committee and management that none of the identified material weaknesses has resulted in material inaccuracies in our financial results for the fiscal year ended May 29, 2004. In addition, although KPMG does not perform an audit on a quarterly basis, based on reviews of prior quarters and results of audit procedures to date, KPMG has advised us that nothing came to its attention that leads it to conclude that any of our quarterly results in fiscal 2004 were incorrect in any material respect. Further, we have determined, based on our own investigation, and without reliance on KPMG, that the identified material weaknesses in our internal control over financial reporting have not had, individually or in the aggregate, a material effect on the accuracy of our financial statements. We believe that the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were and continue to be effective in timely alerting us to material financial information required to be included in our periodic filings.

KPMG and management did not have an opportunity to discuss these issues in detail or to reach agreement as to KPMG's conclusions prior to the presentation to our Audit Committee. We are actively engaged in discussions with KPMG regarding the material weaknesses, and we will work with KPMG to rectify them as soon as practicable. The identified material weaknesses are:

inadequate controls restricting access to computer systems and data, and improper functioning of controls which are designed to ensure the integrity of changes to applications;

inadequate reconciliation process for the migration of financial information from local systems of foreign subsidiaries to the PeopleSoft system at headquarters;

lack of consistent inventory reconciliations between our current system (Robinet) and PeopleSoft and lack of effective resolution of reconciling items;

lack of consistent accounts receivable reconciliations;

lack of formal monthly reconciliation between billings and shipments in order to verify accurate and complete sales reporting, as well as potentially inadequate segregation of duties between employees who perform these tasks; and

undocumented year end closing and reporting procedures for consolidating foreign subsidiaries, and the need for each foreign subsidiary to properly document all adjusting entries to its books.

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Upon completion of the annual audit KPMG may identify additional issues which, either individually or in the aggregate, constitute a material weakness. We are committed to maintaining effective internal control over financial reporting and will take steps to address promptly any material weaknesses that are identified. Over the last two years, we instituted additional processes and procedures to improve our internal control over financial reporting.

For example, in fiscal 2003, we initiated an internal control risk assessment program. From the risk assessment, an internal audit plan is developed annually and presented to and approved by the Audit Committee. Internal audits are performed in accordance with the audit plan. Management action plans are documented to monitor corrective action in specific areas and are reviewed with the Audit Committee on a quarterly basis.

In addition, we are currently in the application development stage of implementing enterprise resource management software (PeopleSoft). We anticipate that it will be fully implemented for our purchasing, inventory and planning functions and financial applications by the second quarter of fiscal 2005, at which time the reconciliation issues between our former system (Robinet) and the PeopleSoft system, which relate to our inventories and accounts receivable, are expected to be remedied. This is also expected to remedy any inconsistencies that may exist between PeopleSoft and the local systems of our foreign subsidiaries.

During the course of fiscal 2004, we implemented additional access restrictions by establishing a finite group of employees who have access to our computer systems and data. Each of these employees has limited access for certain specified purposes and each must use a designated password when accessing the system, which allows us to track and identify who accessed the system and what changes were made. As a result of KPMG's conclusions, we are increasing our focus on access restrictions with a view to formalizing our policies and improving our documentation.

Further, we are evaluating our policies and procedures that relate to the material weaknesses identified by KPMG, and will implement any additional measures necessary to rectify any deficiencies in our internal controls as soon as practicable. We also intend to continue to conduct monthly financial reviews in an attempt to identify any discrepancies that may arise as a result of a failure of an internal control.

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

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Our principal executive offices are located at 40W267 Keslinger Road, P.O. Box 393, LaFox, Illinois 60147-0393, and our telephone number is (630) 208-2200. Our website address is [www.rell.com](http://www.rell.com). Information contained on our website does not constitute part of this prospectus.

**The Offering**

Common stock offered by us	3,000,000 shares
Over-allotment option offered by us	450,000 shares
Common stock outstanding before offering	11,089,211 shares of common stock and 3,168,922 shares of Class B common stock
Common stock outstanding after offering	14,089,211 shares of common stock and 3,168,922 shares of Class B common stock
Use of proceeds	At the public offering price of \$10.25 per share, we estimate that the net proceeds of this offering will be approximately \$28.6 million (\$32.9 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds from the sale of our common stock in this offering to repay borrowings under our credit agreement. Subsequently, in the event debentures remain outstanding after completion of the exchange offer, we intend to reborrow an amount not in excess of the net proceeds to redeem those debentures to the extent of such proceeds.
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 payments 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. See "Dividend Policy."
Risk factors	You should carefully consider all of the information set forth in this prospectus and, in particular, you should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in our common stock.
Nasdaq National Market symbol	RELL

The number of shares of common stock outstanding is based on the number of shares outstanding as of July 1, 2004, which excludes:

2,494,000 shares reserved for issuance under our existing stock incentive plans, including 1,548,000 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of \$9.52 per share;

57,000 shares reserved for issuance under our employee stock purchase plan; and

3,681,000 shares reserved for issuance upon conversion of the 7<sup>1</sup>/<sub>4</sub>% debentures, which have a conversion price of \$21.14 per share, and the 8<sup>1</sup>/<sub>4</sub>% debentures, which have a conversion price of \$18.00 per share.

Except as otherwise noted in this prospectus, we have assumed that the underwriters will not exercise their over-allotment option.

**The Exchange Offer**

We also expect to offer to exchange any and all of our outstanding debentures that are validly tendered and not withdrawn for an equal principal amount of notes. The exchange offer, if commenced, would be made by a separate prospectus and the related letter of transmittal. The exchange offer would not be contingent upon the closing of this offering. We expect to commence the exchange offer after the closing of this offering. See "The Exchange Offer."

### Summary Selected Consolidated Financial Information

The following table contains summary selected consolidated financial data as of and for the fiscal years ended May 31, 2001, 2002 and 2003 and as of and for the nine months ended February 28, 2003 and 2004. The summary selected consolidated financial data as of May 31, 2002 and 2003, and for the fiscal years ended May 31, 2001, 2002 and 2003, are derived from our audited financial statements contained elsewhere in this prospectus. The summary selected consolidated financial data as of and for the nine months ended February 28, 2003 and 2004 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 nine months ended February 28, 2004 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 May 31 <sup>(1)</sup>			Nine Months Ended	
	2001	2002 <sup>(2)</sup>	2003 <sup>(3)</sup>	February 28, 2003	February 28, 2004
	(In thousands, except per share amounts)			(Unaudited)	
<b>Statement of Operations Data:</b>					
Net sales	\$ 502,369	\$ 443,492	\$ 464,517	\$ 345,582	\$ 374,695
Cost of products sold	370,819	349,326	365,427	261,313	283,102
Gross margin	131,550	94,166	99,090	84,269	91,593
Selling, general and administrative expenses	94,444	99,070	100,749	74,155	78,441
Other expense, net	10,716	12,894	11,484	8,147	7,934
Income (loss) before income taxes	26,390	(17,798)	(13,143)	1,967	5,218
Income tax provision (benefit)	8,656	(6,339)	(3,012)	825	1,621
Income (loss) before cumulative effect of accounting change	17,734	(11,459)	(10,131)	1,142	3,597
Cumulative effect of accounting change, net of tax <sup>(4)</sup>			17,862	17,862	
Net income (loss)	\$ 17,734	\$ (11,459)	\$ (27,993)	\$ (16,720)	\$ 3,597
Income (loss) per share basic:					
Before cumulative effect of accounting change	\$ 1.33	\$ (.84)	\$ (.73)	\$ .08	\$ .26
Cumulative effect of accounting change, net of taxes			(1.30)	(1.30)	
Net income (loss) per share	\$ 1.33	\$ (.84)	\$ (2.03)	\$ (1.22)	\$ .26
Income (loss) per share diluted:					
Before cumulative effect of accounting change	\$ 1.21	\$ (.84)	\$ (.73)	\$ .08	\$ .25
Cumulative effect of accounting change, net of taxes			(1.30)	(1.28)	
Net income (loss) per share	\$ 1.21	\$ (.84)	\$ (2.03)	\$ (1.20)	\$ .25
Dividends per common share <sup>(5)</sup>	\$ .16	\$ .16	\$ .16	\$ .12	\$ .12

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	Fiscal Year Ended May 31 <sup>(1)</sup>			Nine Months Ended	
Weighted-average number of common shares outstanding: <sup>(6)</sup>					
Basic	13,333	13,617	13,809	13,742	14,002
Diluted	17,568	13,617	13,809	13,989	14,374

**Other Data:**

Interest expense	\$ 11,146	\$ 12,386	\$ 10,352	\$ 7,757	\$ 7,682
Investment income	575	352	124	123	189
Depreciation & amortization	5,776	5,875	5,364	4,273	4,013
Capital expenditures	7,883	5,727	6,125	4,958	3,861

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	As of May 31 <sup>(1)</sup>			As of	
	2001	2002	2003	February 28, 2003	February 28, 2004
	(In thousands unless otherwise stated)			(Unaudited)	
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 15,946	\$ 15,296	\$ 16,874	\$ 11,867	\$ 19,727
Working capital	225,436	186,554	183,859	192,228	177,459
Property, plant and equipment, net	28,753	28,827	31,088	30,588	30,747
Total assets	321,514	286,647	264,931	266,137	275,136
Current maturities of long-term debt	205	38	46	42	4,488
Long-term debt	155,134	132,218	138,396	140,961	127,455
Stockholders' equity	109,545	99,414	75,631	80,677	82,938

- (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 \$16.1 million charge (\$10.3 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 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 \$298 in 1999, \$368 in 2000, \$612 in 2001, and \$577 in 2002.
- (5) The dividend per class B common share was 90% of the dividend per common share.
- (6) The weighted-average number of common shares outstanding includes 3,220, 3,207 and 3,207 class B common shares for the fiscal years ended May 31, 2001, 2002, and 2003, respectively, and 3,207 and 3,189 class B common shares for the nine months ended February 28, 2003 and 2004, respectively.



## 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 common stock offered by this prospectus. Some of the risks relate to the exchange offer. 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.*

### **Risks if the Exchange Offer is Unsuccessful**

**If the exchange offer is unsuccessful, we may be unable to repay the outstanding debentures at maturity.**

It is likely that we will not be able to generate sufficient cash to repay the outstanding debentures at maturity. As of February 28, 2004, we had \$30,825,000 aggregate principal amount of our 7<sup>1</sup>/<sub>4</sub>% debentures outstanding and \$40,000,000 aggregate principal amount of our 8<sup>1</sup>/<sub>4</sub>% debentures outstanding. Our debt-to-equity ratio was 159% as of February 28, 2004, the date of the balance sheet used to calculate this ratio. The working capital requirements of our business result in substantial fluctuations in our cash balances during fiscal quarters. We are unlikely to be able to redeem or repay the outstanding debentures at maturity without depleting our cash balance to a level that would be insufficient to support our business. While we believe we would be able to strengthen our financial position, improve our capital structure, and reduce our cash expenditures by conducting the exchange offer, we may not be successful. If we do not commence the exchange offer (whether due to market conditions or otherwise) or if it is unsuccessful and we are unable to repay the outstanding debentures at maturity, our default in payment of the outstanding debentures would trigger an event of default under the related indentures, which would trigger a cross-default under the separate indenture that would govern any notes that may be issued in the exchange offer as well as our credit agreement and could trigger acceleration of the related debt. In addition, the lenders under our credit agreement could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under our credit agreement or the indentures governing the outstanding debentures or the notes could adversely affect our growth, our financial condition, our results of operations, our ability to make payments on our debt obligations, our ability to obtain favorable financing terms and, ultimately, could affect our ability to continue as a going concern and could require us to seek judicial or bankruptcy relief.

Currently, we do not have any financing plans for payment of the outstanding debentures other than this offering and the exchange offer. If this offering is successfully completed, we intend to use the net proceeds to repay borrowings under our credit agreement. Subsequently, in the event debentures remain outstanding after completion of the exchange offer, we intend to reborrow an amount not in excess of the net proceeds of this offering to redeem those debentures to the extent of such proceeds. If the proceeds from this offering are insufficient to redeem all of the outstanding debentures and the exchange offer is not commenced or is unsuccessful, we will evaluate alternative financing plans for payment of the outstanding debentures at that time, taking into account the then existing market conditions. See "The Exchange Offer."

### **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 \$11.5 million in fiscal 2002 and \$28.0 million in fiscal 2003 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. 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 recently 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 and Wireless Communications Group, 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. We cannot assure you that we will not incur similar charges in the future.

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

In connection with the audit of our financial statements for the fiscal year ended May 29, 2004, KPMG, our independent auditors discussed with the Audit Committee a number of issues that may constitute material weaknesses in our internal control over financial reporting. Although these issues were identified by KPMG as material weaknesses in the meeting with the Audit Committee, it has informed us that its presentation did not constitute a formal or definitive notice to us that material weaknesses exist. KPMG has indicated that it is still in the process of completing its annual audit, but given the information it currently possesses, KPMG expects to deliver a letter to us at the conclusion of its audit reporting the existence of six material weaknesses in internal control. We expect that the audit will be concluded in July 2004.

Ernst & Young LLP, which we refer to as "E&Y," audited our financial statements for our 2001, 2002 and 2003 fiscal years. We dismissed E&Y and appointed KPMG as our independent auditors in August 2003, as described under "Experts" beginning on page 86. KPMG has not completed an audit of, or issued an audit report with respect to, any of the financial statements included in this prospectus.

KPMG and management did not have an opportunity to discuss these issues in detail or to reach agreement as to KPMG's conclusions prior to the presentation to our Audit Committee. We are actively engaged in discussions with KPMG regarding the material weaknesses, and we will work with KPMG to rectify them as soon as practicable. The identified material weaknesses are:

inadequate controls restricting access to computer systems and data, and improper functioning of controls which are designed to ensure the integrity of changes to applications;

inadequate reconciliation process for the migration of financial information from local systems of foreign subsidiaries to the PeopleSoft system at headquarters;

lack of consistent inventory reconciliations between our current system (Robinet) and PeopleSoft and lack of effective resolution of reconciling items;

lack of consistent accounts receivable reconciliations;

lack of formal monthly reconciliation between billings and shipments in order to verify accurate and complete sales reporting, as well as potentially inadequate segregation of duties between employees who perform these tasks; and

undocumented year end closing and reporting procedures for consolidating foreign subsidiaries, and the need for each foreign subsidiary to properly document all adjusting entries to its books.

Upon completion of the annual audit, KPMG may identify additional issues which, either individually or in the aggregate, constitute a material weakness. KPMG has indicated to both the Audit Committee and management that none of the identified material weaknesses has resulted in material inaccuracies in our financial results for the fiscal year ended May 29, 2004. However, we cannot assure you that KPMG will not determine otherwise prior to the release of our Annual Report on Form 10-K for the fiscal year ended May 29, 2004 or that our internal control processes are sufficient to alert us to all material information that is required to be filed in our periodic reports with the SEC, or to provide reasonable assurance that our financial statements are fairly presented in conformity with accounting principles generally accepted in the United States. Additionally, ineffective internal controls would place us at increased risk of fraud or misuse of corporate assets.

To the extent that any material weaknesses are identified in our internal controls, significant resources from our management team may be required to implement and maintain effective controls and procedures. In addition, we may need to hire additional employees and further train our existing employees and may experience higher than anticipated capital expenditures and operating expenses, during the implementation of these changes and thereafter. If we are unable to implement these changes effectively or efficiently, there could be a material adverse effect on our operations or financial results.

**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 are adversely affected by general economic downturns. In particular, demand for the products and services of our RF and Wireless Communications Group is dependent upon capital spending levels in the telecommunications industry and demand for products and services of our Industrial Power Group is dependent upon capital spending levels in the manufacturing industry, including steel, automotive, textiles, plastics, and semiconductors, as well as the transportation industry. Many of our customers delay capital projects during economic downturns. Accordingly, our operating results for any particular period are not necessarily indicative of the operating results for any future period. The markets served by our businesses have historically experienced downturns in demand that could harm our operating

results. Future economic downturns could be triggered by a variety of causes, including outbreaks of hostilities, terrorist actions, or epidemics in the United States or abroad.

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

As of February 28, 2004, our total long-term debt was approximately \$127 million, including our outstanding debentures. We have incurred and will likely continue to incur indebtedness to fund potential future acquisitions, for strategic initiatives and for general corporate purposes. Although we believe that the cash flow generated by our continuing operations is sufficient to meet our repayment obligations over the next 12 months, we cannot assure you that this will be the case. Our incurrence of additional indebtedness could have important consequences to you. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

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

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

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

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

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

As of February 28, 2004, our total debt was approximately \$132 million, resulting in a debt-to-equity ratio of 159%, and primarily consisted of:

\$30,825,000 aggregate principal amount of our 7<sup>1</sup>/<sub>4</sub>% debentures, which bear interest at a rate of 7<sup>1</sup>/<sub>4</sub>% per year payable on June 15 and December 15 and mature on December 15, 2006;

\$40,000,000 aggregate principal amount of our 8<sup>1</sup>/<sub>4</sub>% debentures, which bear interest at a rate of 8<sup>1</sup>/<sub>4</sub>% per year payable on June 15 and December 15 and mature on June 15, 2006; and

\$60,434,687 principal amount of indebtedness under our credit agreement, which matures on September 30, 2005, bears interest at London Interbank Offered Rate, or LIBOR, plus a margin varying with certain financial performance criteria. The interest rate was 4.09% at February 28, 2004.

The debt-to-equity ratio has been calculated based on our balance sheet dated February 28, 2004.

In the exchange offer, if commenced and completed, we expect to issue an aggregate principal amount of notes equal to the principal amount of outstanding debentures tendered and accepted in the exchange offer.

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.

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

**If Mr. Richardson's voting power is insufficient for him to elect a majority of our board of directors, we would be in default under our credit agreement.**

We would be in default under our credit agreement if the level of Mr. Richardson's voting power is less than 51% and therefore not sufficient for him to elect a majority of our board of directors and control any amendment to our by-laws. Mr. Richardson's voting power could be reduced below 51% under a number of scenarios, including our issuance of additional shares of voting stock or the death of Mr. Richardson. Upon such a default, the lenders may declare amounts borrowed under the credit agreement to be immediately due and payable, which in turn would cause a default and acceleration of payment of the notes, if the exchange offer is commenced and completed. In addition, the lenders under our credit agreement could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Our business and financial condition could be significantly harmed if such a default occurs.

**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, and Bruce W. Johnson, our president and chief operating officer, could significantly harm our business and results of operations. In addition, we would be in default under our credit agreement if the level of Mr. Richardson's voting power is less than 51% and therefore is not sufficient for him to elect a majority of our board of directors and control any amendment to our by-laws.

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

Our credit agreement contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make other payments in respect of our shares of common stock and Class B common stock, to engage in transactions with affiliates, to make certain payments and investments, to merge or consolidate with another entity, and to repay indebtedness junior to indebtedness under the credit agreement. The credit agreement also contains a number of financial covenants that require us to meet certain financial ratios and tests relating to, among other things, tangible net worth, a borrowing base,

senior funded debt to cash flow, and annual debt service coverage. In addition, the indentures for our outstanding debentures 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 and merge or consolidate with another entity. If we fail to comply with the obligations in the credit agreement and indentures, it could result in an event of default under those agreements. If an event of default occurs and is not cured or waived, it could result in acceleration of the indebtedness under those agreements, any of which could significantly harm our business and financial condition.

**Potential 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.**

The Financial Accounting Standards Board is considering whether to require all companies to treat the fair value of stock options granted to employees as an expense. The United States Congress and other governmental and regulatory authorities have also considered requiring companies to expense stock options. If this change were to become mandatory, we and other companies could be required to record a compensation expense equal to the fair value of each stock option granted. Currently, we are generally not required to record compensation expense in connection with stock option grants. If we were required to expense the fair value of stock option grants, it would reduce 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, had we been required to expense stock option grants by applying the measurement provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," our recorded net income of \$3.6 million would have been decreased by \$612,000, to net income of \$3.0 million for the nine months ended February 28, 2004 and our recorded net loss of \$28.0 million would have been increased by \$1.6 million, to a net loss of \$29.6 million for fiscal 2003. 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, in the event we are required 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.

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.**

One of our growth strategies is to increase our sales and expand our markets through acquisitions. Since 1980, we have acquired 34 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.

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 2003, we recorded a \$1.7 million restructuring charge as we eliminated over 70 positions or approximately 6% of our workforce. We cannot assure you that we will be able to continue to reduce our costs.

**Our Industrial Power Group is dependent on a limited number of vendors to supply us with essential products.**

Electron tubes and certain other products supplied by our Industrial Power 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 Industrial Power Group are consolidating their distribution relationships or exiting the business. The three largest suppliers to the Industrial Power Group by percentage of overall Industrial Power Group purchases in fiscal 2003 were Communications & Power Industries, Inc., Covimag S.A., and Powerex Inc. These suppliers accounted for approximately 55% of the overall Industrial Power Group purchases in fiscal 2003. 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 2003, approximately 56.9% of our sales and 28.4% of our purchases of products were made internationally. 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.

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 relationship with those vendors could be harmed as a result of this competition.

**The recent outbreak of severe acute respiratory syndrome, or SARS, or any other disease epidemic, may adversely affect our business, financial condition and results of operations.**

The outbreak of highly infectious epidemics in Asia/Pacific, including SARS and avian influenza, commonly known as Asian bird flu, and concerns over its spread in Asia/Pacific and elsewhere could have a negative impact on commerce, travel, and general economic and industry conditions. Asia/Pacific represented 16.8% of our revenue in fiscal 2003 and we believe a significant percentage of our product purchases comes directly or indirectly from Asia/Pacific. Given the importance of the Asia/Pacific market to our business, we may be more exposed to this risk than the global economy generally. For example, the SARS outbreak could result in quarantines or closures of our or our customers' or suppliers' facilities in Asia/Pacific. The SARS outbreak may also adversely impact our ability to purchase goods from suppliers in Asia/Pacific. As a result of the SARS outbreak, or any other disease epidemic, our business, financial condition, and results of operations could be materially adversely affected.

### **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. Edward J. Richardson, our chairman of the board and chief executive officer, holds 99.6% of the outstanding Class B common stock as of July 1, 2004. Because of its voting power, the Class B common stock controls 74.1% 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 July 1, 2004, we had 17,474,082 authorized but unissued shares of common stock and 1,436,707 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.

At July 1, 2004, we had a total of 6,232,000 shares of common stock reserved for issuance. These reserved shares included 2,494,000 shares reserved for issuance under our existing stock incentive plans, including 1,548,000 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of \$9.52 per share; 57,000 shares reserved for issuance under our employee stock purchase plan; and 3,681,000 shares reserved for issuance upon conversion of the 7<sup>1</sup>/<sub>4</sub>% debentures, which currently have a conversion price of \$21.14 per share, and the 8<sup>1</sup>/<sub>4</sub>% debentures, which currently have a conversion price of \$18.00 per share. Because we expect to set a lower conversion price for the notes in the potential exchange offer, we expect we would reserve a larger number of shares for issuance upon conversion of any notes we may issue in the exchange offer. Moreover, while we expect to set the conversion price above the then current market price, we cannot give any assurance as to then current market price at such time as we may decide to commence the exchange offer.

#### **New investors in our common stock will experience immediate and substantial dilution after this offering.**

The public offering price of our common stock in this offering is substantially higher than the pro forma net tangible book value per share of the outstanding common stock immediately after the offering. Based on the public offering price of \$10.25 per share and our net tangible book value as of

February 28, 2004, if you purchase our common stock in this offering you will suffer immediate dilution of approximately \$4.10 per share in pro forma net tangible book value. See "Dilution."

**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, most 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 and Wireless Communications Group, Industrial Power 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 June 30, 2004, the average daily trading volume for our common stock as reported by The Nasdaq National Market was 40,084 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.**

Our ability to pay dividends in the future depends on our ability to operate profitably and to generate cash from our operations in excess of our debt service obligations. Our board of directors has discretion to reduce or discontinue paying dividends if it decides to utilize the cash for other corporate purposes. In addition, our credit agreement and the indentures governing our outstanding debentures contain restrictions on the payment of cash dividends. 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."

### 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:

our estimated revenues, gross margin, operating expenses and earnings per diluted share for fiscal years 2004 and 2005;

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," and, in the case of fiscal 2004 results, adjustments and corrections that may occur as we complete our external audit.

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.

### USE OF PROCEEDS

Based on the public offering price of \$10.25 per share of common stock, we estimate the net proceeds to us from this offering will be approximately \$28.6 million after deducting the underwriting discount and commissions and offering expenses payable by us. If the underwriters' option to purchase additional shares in this offering is exercised in full, we estimate our net proceeds will be approximately \$32.9 million. We intend to use the net proceeds to repay borrowings under our credit agreement. Subsequently, in the event any outstanding debentures remain after completion of the exchange offer, if commenced, we intend to reborrow an amount not in excess of the net proceeds to redeem those debentures to the extent of such proceeds.

Our 7<sup>1</sup>/<sub>4</sub>% debentures bear interest at 7<sup>1</sup>/<sub>4</sub>% per year and mature on December 15, 2006 and our 8<sup>1</sup>/<sub>4</sub>% debentures bear interest at 8<sup>1</sup>/<sub>4</sub>% per year and mature on June 15, 2006. As of February 28, 2004, we had \$30,825,000 aggregate principal amount of our 7<sup>1</sup>/<sub>4</sub>% debentures outstanding and \$40,000,000 aggregate principal amount of our 8<sup>1</sup>/<sub>4</sub>% debentures outstanding. As of February 28, 2004, we had aggregate indebtedness of \$60,434,687 under our credit agreement with a weighted average interest rate of 4.09% and a maturity of September 2005.

Pending the application of the net proceeds, we expect to invest the proceeds in investment-grade, interest-bearing securities, short term investments or similar assets.

In the event that the exchange offer is not successfully completed, we will evaluate the advisability of and limitations on reborrowing an amount not in excess of the net proceeds from this offering in order to redeem the outstanding debentures.

### MARKET AND MARKET PRICES

Our common stock is traded 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 31, 2003</b>		
First Quarter	\$ 11.45	\$ 8.11
Second Quarter	\$ 9.00	\$ 5.60
Third Quarter	\$ 9.19	\$ 7.14
Fourth Quarter	\$ 9.33	\$ 7.41
<b>Fiscal Year Ended May 31, 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 31, 2005</b>		
First Quarter (through July 1, 2004)	\$ 11.96	\$ 9.99

On July 1, 2004, the last reported sale price of our common stock on The Nasdaq National Market was \$10.67 per share. As of July 1, 2004, there were approximately 988 stockholders of record of our common stock and approximately 20 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 our outstanding 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 \$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 credit agreement, we are prohibited from paying dividends in excess of an annualized rate of \$.16 per share of common stock and \$.144 per share of Class B common stock. In addition, the credit agreement prohibits our subsidiaries, other than wholly owned subsidiaries, from paying dividends. Pursuant to the indenture that would govern the notes, if issued, we expect the conversion price of the notes would be adjusted if, among other things, we pay dividends in excess of an annualized rate of \$.16 per share of common stock.

### CAPITALIZATION

We present in the table below the capitalization of our company and our subsidiaries:

on an actual consolidated basis as of February 28, 2004;

as adjusted to give effect to this offering and the application of proceeds as described in "Use of Proceeds," based on the public offering price of \$10.25 per share, and assuming that we commence the exchange offer and subsequently reborrow an amount equal to the net proceeds from this offering to redeem the outstanding debentures;

as adjusted to give effect to this offering and the exchange offer, assuming 75% (the minimum condition we expect in the exchange offer) of the outstanding debentures are tendered and accepted in the exchange offer; and

as adjusted to give effect to this offering and the exchange offer, assuming 100% of the outstanding debentures are tendered and accepted in the exchange offer.

We expect to commence the exchange offer after the closing of this offering. See "The Exchange Offer." In the event that the exchange offer is not successfully completed, we will evaluate the advisability of and limitations on reborrowing an amount not in excess of the net proceeds from this offering in order to redeem the outstanding debentures.

You should read this information in conjunction with the information under "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes beginning on page F-1.

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As of February 28, 2004

	Actual	As adjusted for this offering <sup>(1)</sup>	As adjusted for this offering and the exchange offer, assuming 75% of outstanding debentures are tendered	As adjusted for this offering and the exchange offer, assuming 100% of outstanding debentures are tendered
(In thousands)				
Cash and cash equivalents	\$ 19,727	\$ 19,727	\$ 18,936	\$ 18,759
Short-term debt <sup>(2)</sup>	4,488	638	638	638
<b>Long-term debt:</b>				
Bank credit facility	60,435	60,435	49,581	31,874
Notes			53,119	70,825
Capital leases	45	45	45	45
Outstanding debentures	66,975	42,264		
Total long-term debt	\$ 127,455	\$ 102,744	\$ 102,744	\$ 102,744
<b>Stockholders' equity:</b>				
Common stock (\$.05 par value; 12,500 shares issued)	625	775	775	775
Class B common stock, convertible (\$.05 par value; 3,171 shares issued)	159	159	159	159
Preferred stock (\$1.00 par value; no shares issued)				
Additional paid-in capital	93,886	122,297	122,297	122,297
Common stock in treasury, at cost (1,496 shares)	(8,864)	(8,864)	(8,864)	(8,864)
Retained earnings <sup>(3)</sup>	8,026	7,970	7,887	7,887
Unearned compensation	(368)	(368)	(368)	(368)
Accumulated other comprehensive loss	(10,526)	(10,526)	(10,526)	(10,526)
Total stockholders' equity	\$ 82,938	\$ 111,443	\$ 111,360	\$ 111,360
Total capitalization	\$ 214,881	\$ 214,825	\$ 214,742	\$ 214,742

(1) Assumes that we repay borrowings under our credit agreement and that we commence the exchange offer and subsequently reborrow an amount equal to the net proceeds from this offering to redeem the outstanding debentures.

(2) Includes \$3,850 sinking fund payment on the 7<sup>1</sup>/<sub>4</sub>% debentures for December 2004, \$598 for interest rate swaps ending in July 2004 and \$40 for capitalized leases.

(3) Adjusted figures include up to \$139 accelerated amortization of deferred financing costs associated with redeeming outstanding debentures.

The number of outstanding shares of our common stock as of February 28, 2004 excludes:



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2,527 shares reserved for issuance under our existing stock incentive plans, including 1,538 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of \$9.39 per share;

116 shares reserved for issuance under our employee stock purchase plan; and

3,681 shares reserved for issuance upon conversion of our outstanding debentures.

**DILUTION**

As of February 28, 2004, our net tangible book value was \$77.0 million or \$5.44 per common share, including our common stock and Class B common stock. "Net tangible book value per share" is determined by dividing our net tangible book value (total tangible assets less total liabilities and minority interests) by the number of shares of common stock outstanding. After giving effect to the sale of the shares of our common stock in the offering based on the public offering price of \$10.25 per share and after deducting the underwriting discounts and commissions and the estimated expenses of this offering, our pro forma net tangible book value as of February 28, 2004 would have been approximately \$105.6 million in the aggregate, or \$6.15 per common share. This represents an immediate increase in net tangible book value of \$0.71 per common share to existing holders and an immediate dilution of \$4.10 per common share to new investors purchasing shares of common stock in the offering. The following table illustrates this per share dilution:

Public offering price per share		\$ 10.25
Net tangible book value per common share as of February 28, 2004	\$ 5.44	
Increase attributable to new investors	\$ 0.71	
	<u>        </u>	
Pro forma net tangible book value per common share as of February 28, 2004, after giving effect to this offering	\$ 6.15	
	<u>        </u>	
Dilution per common share to new investors		\$ 4.10
		<u>        </u>

"Dilution per common share to new investors" means the difference between the public offering price per share of common stock and the pro forma net tangible book value per common share as of February 28, 2004, after giving effect to this offering.

As of February 28, 2004, the weighted average exercise price of all outstanding stock options was \$9.39 per share and the weighted average exercise price of in-the-money stock options was \$7.67. Since the book value per share was \$5.44, the effect of those stock options would be anti-dilutive.

If the exchange offer is commenced, we expect to set the conversion price on the notes at a level above the then current market price of our common stock. Because the conversion price on the notes would be above the market price of our common stock, we do not believe that the exchange offer would have a dilutive effect on a book value basis. However, we cannot give any assurance as to the market price at such time as we may decide to commence the exchange offer.

Assuming the underwriters exercise their over-allotment option in full, the number of shares held by new investors will increase by 450,000 shares, to 3,450,000 shares, so that we would have had 14,539,211 shares of common stock outstanding after this offering. In that event, the dilution per common share to new investors would be \$4.01.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table contains selected consolidated financial data as of and for the fiscal years ended May 31, 1999, 2000, 2001, 2002, 2003 and 2004 and as of and for the nine months ended February 28, 2003 and 2004. The selected consolidated financial data as of May 31, 2002 and 2003, and for the fiscal years ended May 31, 1999, 2000, 2001, 2002 and 2003, are derived from our audited financial statements contained elsewhere in this prospectus. The selected consolidated financial data as of and for the nine months ended February 28, 2003 and 2004 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 nine months ended February 28, 2004 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 May 31 <sup>(1)</sup>					Nine Months Ended	
	1999	2000	2001	2002 <sup>(2)</sup>	2003 <sup>(3)</sup>	February 28, 2003	February 28, 2004
	(In thousands, except per share amounts)					(Unaudited)	
<b>Statement of Operations Data:</b>							
Net sales	\$ 323,959	\$ 410,468	\$ 502,369	\$ 443,492	\$ 464,517	\$ 345,582	\$ 374,695
Costs of products sold	233,644	301,561	370,819	349,326	365,427	261,313	283,102
Gross margin	90,315	108,907	131,550	94,166	99,090	84,269	91,593
Selling, general and administrative expenses	71,572	82,464	94,444	99,070	100,749	74,155	78,441
Other expense, net	6,886	7,839	10,716	12,894	11,484	8,147	7,934
Income (loss) before income taxes	11,857	18,604	26,390	(17,798)	(13,143)	1,967	5,218
Income tax provision (benefit)	3,505	5,500	8,656	(6,339)	(3,012)	825	1,621
Income (loss) before cumulative effect of accounting change	8,352	13,104	17,734	(11,459)	(10,131)	1,142	3,597
Cumulative effect of accounting change, net of tax <sup>(4)</sup>					17,862	17,862	
Net income (loss)	\$ 8,352	\$ 13,104	\$ 17,734	\$ (11,459)	\$ (27,993)	\$ (16,720)	\$ 3,597
Income (loss) per share basic:							
Before cumulative effect of accounting change	\$ .60	\$ 1.03	\$ 1.33	\$ (.84)	\$ (.73)	\$ .08	\$ .26
Cumulative effect of accounting change, net of taxes					(1.30)	(1.30)	
Net income (loss) per share	\$ .60	\$ 1.03	\$ 1.33	\$ (.84)	\$ (2.03)	\$ (1.22)	\$ .26
Income (loss) per share diluted:							
Before cumulative effect of accounting change	\$ .60	\$ 1.00	\$ 1.21	\$ (.84)	\$ (.73)	\$ .08	\$ .25
Cumulative effect of accounting change, net of taxes					(1.30)	(1.28)	
Net income (loss) per share	\$ .60	\$ 1.00	\$ 1.21	\$ (.84)	\$ (2.03)	\$ (1.20)	\$ .25

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	Fiscal Year Ended May 31 <sup>(1)</sup>					Nine Months Ended	
Dividends per common share <sup>(5)</sup>	\$ .16	\$ .16	\$ .16	\$ .16	\$ .16	\$ .12	\$ .12
Weighted-average number of common shares outstanding: <sup>(6)</sup>							
Basic	13,882	12,684	13,333	13,617	13,809	13,742	14,002
Diluted	14,026	16,580	17,568	13,617	13,809	13,989	14,374
<b>Other Data:</b>							
Interest expense	\$ 7,869	\$ 8,911	\$ 11,146	\$ 12,386	\$ 10,352	\$ 7,757	\$ 7,682
Investment income	636	1,032	575	352	124	123	189
Depreciation & amortization	4,238	5,159	5,776	5,875	5,364	4,273	4,013
Capital expenditures	7,647	7,026	7,883	5,727	6,125	4,958	3,861

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	As of May 31 <sup>(1)</sup>					As of	
	1999	2000	2001	2002	2003	February 28, 2003	February 28, 2004
	(In thousands unless otherwise stated)					(Unaudited)	
<b>Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 12,569	\$ 11,832	\$ 15,946	\$ 15,296	\$ 16,874	\$ 11,867	\$ 19,727
Working capital	161,640	174,270	225,436	186,554	183,859	192,228	177,459
Property, plant and equipment, net	23,047	25,851	28,753	28,827	31,088	30,588	30,747
Total assets	235,678	264,925	321,514	286,647	264,931	266,137	275,136
Current maturities of long-term debt	1,830	2,619	205	38	46	42	4,488
Long-term debt	113,658	117,643	155,134	132,218	138,396	140,961	127,455
Stockholders' equity	84,304	93,993	109,545	99,414	75,631	80,677	82,938

- (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 \$16.1 million charge (\$10.3 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 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 \$298 in 1999, \$368 in 2000, \$612 in 2001, and \$577 in 2002.
- (5) The dividend per class B common share was 90% of the dividend per common share.
- (6) The weighted-average number of common shares outstanding includes 3,236, 3,233, 3,220, 3,207 and 3,207 class B common shares for the fiscal years ended May 31, 1999, 2000, 2001, 2002, and 2003, respectively, and 3,207 and 3,189 class B common shares for the nine months ended February 28, 2003 and 2004, respectively.

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

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

**Overview**

We reached record sales of \$502.4 million in fiscal 2001. The severe recession in the electronics industry following fiscal 2001 resulted in a 11.7% sales decline for us to \$443.5 million in fiscal 2002. In fiscal 2003, our growth resumed as sales were up 4.7% to \$464.5 million as all four of our strategic business units increased sales from the prior year. During the nine months ended February 28, 2004, we increased sales by 8.4% from a year ago to \$374.7 million. Financial results for our last fiscal quarter ended February 28, 2004 marked the seventh consecutive quarter of year-over-year aggregate sales growth.

In the first nine months of fiscal 2004, net income before cumulative effect of accounting change more than tripled from \$1.1 million or \$0.08 per share in the prior year to \$3.6 million or \$0.25 per share primarily driven by the sales increase and our selling, general and administrative expenses reduction to 20.9% as a percentage of sales from 21.5% for the first nine months of the prior fiscal year. The net loss for fiscal 2003 was \$28.0 million as we recorded, net of tax, \$8.8 million inventory obsolescence and overstock provision and \$17.9 million goodwill impairment charge. In fiscal 2002, we recorded a net loss of \$11.5 million including, after tax, inventory provision of \$9.8 million and charges related to the medical glassware business disposition of \$2.9 million. In fiscal 2001, we posted a record net income of \$17.7 million.

We strengthened our balance sheet during the nine-month period ended February 28, 2004, reducing inventory by \$2.7 million to \$93.2 million and paying down \$8.1 million of debt (partially mitigated by foreign currency exchange effects) despite increased sales during this period. Liquidity was improved as cash increased \$2.9 million to \$19.7 million driven by \$14.2 million positive cash flows from operations.

During the second quarter of fiscal 2004, we identified an accounting error that occurred in our Swedish subsidiary which affected interest expense previously reported for the prior seven quarters in the aggregate amount of \$738,000. We filed a Form 10-K/A for fiscal 2003 and a Form 10-Q/A for the period ended August 30, 2003, which increased interest expense reported in those periods.

In February of 2002, we sold our medical glassware business that represented a portion of former Medical Systems Group. The rest of Medical Systems Group was reclassified into the Display Systems Group and Corporate.

For information regarding our results for our fiscal fourth quarter and fiscal year ended May 29, 2004 and material weaknesses in our internal control over financial reporting, see "Prospectus Summary Recent Developments" beginning on page 5.

**Results of Operations**

*Nine Months Ended February 28, 2004 Compared to Nine Months Ended February 28, 2003*

The following table shows selected results of operations for the nine months ended February 28, 2004 compared to the nine months ended February 28, 2003 by business unit and geographic area.

	SALES		
	FY 2003	FY 2004	% Change
(In thousands)			
<b>By Business Unit:</b>			
RF and Wireless Communications Group	\$ 152,377	\$ 163,493	7.3%
Industrial Power Group	71,149	81,232	14.2%
Security Systems Division	69,601	76,541	10.0%
Display Systems Group	46,169	47,756	3.4%
Other	6,286	5,673	
<b>Total</b>	<b>\$ 345,582</b>	<b>\$ 374,695</b>	<b>8.4%</b>

<b>By Geographic Area:</b>			
North America	\$ 196,041	\$ 199,556	1.8%
Europe	75,453	86,105	14.1%
Asia/Pacific	56,690	71,120	25.5%
Latin America	15,033	15,106	0.5%
Corporate	2,365	2,808	
<b>Total</b>	<b>\$ 345,582</b>	<b>\$ 374,695</b>	<b>8.4%</b>

	GROSS MARGIN			
	FY 2003	% of Sales	FY 2004	% of Sales
(In thousands)				
<b>By Business Unit:</b>				
RF and Wireless Communications Group	\$ 34,079	22.4%	\$ 37,190	22.7%
Industrial Power Group	22,236	31.3%	24,730	30.4%
Security Systems Division	17,306	24.9%	19,419	25.4%
Display Systems Group	11,977	25.9%	12,132	25.4%
Other	(1,329)		(1,878)	
<b>Total</b>	<b>\$ 84,269</b>	<b>24.4%</b>	<b>\$ 91,593</b>	<b>24.4%</b>

<b>By Geographic Area:</b>				
North America	\$ 51,230	26.1%	\$ 52,332	26.2%
Europe	20,708	27.4%	24,905	28.9%
Asia/Pacific	13,200	23.3%	16,227	22.8%

**GROSS MARGIN**

Latin America	4,054	27.0%	3,545	23.5%
Corporate	(4,923)		(5,416)	
Total	\$ 84,269	24.4%	\$ 91,593	24.4%

**NOTE:** Fiscal 2003 data has been reclassified to conform with the fiscal 2004 presentation. The modifications include:

reclassifying broadcast tubes from RF and Wireless Communications Group to Industrial Power Group; and

reclassifying direct export and a portion of Corporate to the identified geographic areas based on ship to location.

Europe includes sales and gross margins to Middle East and Africa.

Corporate consists of freight and other non-specific sales and gross margins.



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*Sales and Gross Margins.* Consolidated sales for the nine months ended February 28, 2004 increased 8.4% to \$374.7 million due to the increased demand across all strategic business units and all geographic areas. Consolidated gross margins were flat at 24.4%.

RF and Wireless Communications Group nine months sales increased 7.3% from levels for the first nine months of fiscal 2003, driven by strength in Network Access and Passive/Interconnect product lines offset by weakness in some specialty and Broadcast products. The Network Access and Passive/Interconnect product lines posted growth of 17.4% and 15.0% to \$60.1 million and \$31.1 million, respectively, compared to the prior year, associated with wireless demand increase. Gross margins were up 30 basis points led by the growth of higher margin Network Access and Passive/Interconnect product lines.

Industrial Power Group sales increased 14.2% for the nine months led by strong, broad-based demand. Power components were up 21% to \$24.6 million while the tube businesses increased 12% to \$56.7 million. Margins were down 90 basis points primarily due to the exchange rate impact on the cost of certain tube products manufactured in Europe.

Security Systems Division nine months sales increased 10.0%, fueled by continued expansion of the North America business and strengthening of the Canadian dollar. Gross margins increased 50 basis points due to the exchange rate impact partially offset by competitive pricing pressure.

Display Systems Group sales increased 3.4% for the nine months as medical monitor sales increased by 20.6% to \$19.2 million reflecting the continued shift from a film-based environment to digital systems. High margin legacy cathode ray tube products were down 10.9% to \$7.9 million, negatively affecting gross margin as the migration from cathode ray tube to liquid crystal display monitors continues.

North America nine months sales were up slightly as double-digit growth in Canada was offset by a decline in the United States primarily due to a completion of a large wireless infrastructure project in the prior year.

Europe sales increased 14.1% for the nine months as all countries posted increases in sales partially due to the weakening US dollar.

Asia/Pacific increased by 25.5% for the nine months from fiscal 2003. Our nine months sales in China increased 86.1% over last year to \$15.9 million. The margins in China, however, are among the lowest in the area due to the high level of contract manufacturing and component sales, driving the overall Asia/Pacific gross margin down.

Latin America sales were slightly up for the nine months as increased sales in Mexico were partially offset by sales declines in Brazil.

Gross margins by geographic area experienced significant fluctuations for the first nine months from an increase of 150 basis points in Europe to a decrease of 350 basis points in Latin America, principally resulting from changes in the sales mix.

*Selling, General and Administrative (SG&A) Expenses.* For the nine-month period, SG&A expenses increased by \$4.3 million or 5.8% to \$78.4 million primarily due to foreign currency translation, increased PeopleSoft implementation costs, and increased incentives on higher sales, partially offset by a reduction in the bad debt accrual. We expect the implementation of enterprise resource planning software to continue over the next couple of fiscal years while targeting total SG&A expenses to remain in the range of 20% to 21% of sales during these periods.

*Interest and Other Expenses.* Interest expense was relatively flat as both average borrowing levels and the weighted-average interest rate remained essentially the same compared to the prior year. Cash payments for interest were \$8.5 million for the nine months ended February 28, 2004.

Other expense include a realized foreign exchange loss of \$21,000 for the first nine months in fiscal 2004 compared to a realized foreign exchange loss of \$435,000 for the same nine months in fiscal 2003. Also included in Other expenses are net investment income of \$189,000 in 2004 and net investment loss of \$20,000 in 2003. In the first nine months of fiscal 2004, we recorded a loss of \$308,000 due to a loss on disposition of fixed assets and other-than-temporary investment impairment loss of \$210,000.

*Income Tax Provision.* The effective tax rate was 31.1% for the nine-month period of fiscal 2004 compared to 41.9% in fiscal 2003. The effective tax rate differs from the statutory rate of 35.0% primarily due to the impact of certain non-tax deductible charges, our foreign sales corporation benefits on export sales, state taxes, and the tax impact of non-U.S. operations. As we restated fiscal 2003 results because of the accounting error in our Swedish subsidiary associated with interest expense, no adjustment was made to the income tax provision since we do not believe it is more likely than not that the benefits of the foreign losses will be realized. As a result, there were significant fluctuations in the income tax rate in fiscal 2003 and the first nine months of fiscal 2004.

Future effective tax rates could be adversely affected by earnings being lower than anticipated 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 the Internal Revenue Service and other tax authorities and regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes.

*Net Results.* Net income for the first nine months of fiscal 2004 was \$3.6 million, or \$0.25 per share, compared to net income before cumulative effect of accounting change of \$1.1 million, or \$0.08 per share, in the first nine months of the prior year. The cumulative effect of accounting change included in the first nine months of fiscal 2003 net results represents a goodwill and other intangible assets impairment charge in the amount of \$17.9 million, net of taxes of \$3.7 million. The impairment was recorded as a change in accounting principle in the first quarter of fiscal 2003.

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Year Ended May 31, 2003 Compared to Year Ended May 31, 2002

The following table shows selected results of operations for the fiscal year ended May 31, 2003 compared to the fiscal year ended May 31, 2002 by business unit and geographic area.

<b>SALES</b>				
	<b>FY 2002</b>		<b>FY 2003</b>	<b>% Change</b>
(In thousands)				
<b>By Business Unit:</b>				
RF and Wireless Communications Group	\$ 181,969		\$ 204,427	12.3%
Industrial Power Group	95,018		95,508	0.5%
Security Systems Division	85,087		92,090	8.2%
Display Systems Group	60,697		64,191	5.8%
Other	20,721		8,301	
	<b>443,492</b>		<b>464,517</b>	<b>4.7%</b>
<b>Total</b>	<b>\$ 443,492</b>		<b>\$ 464,517</b>	<b>4.7%</b>

<b>By Geographic Area:</b>				
North America	\$ 248,011		\$ 259,640	4.7%
Europe	94,670		103,129	8.9%
Asia/Pacific	68,817		78,146	13.6%
Latin America	29,013		20,523	-29.3%
Corporate	2,981		3,079	
	<b>443,492</b>		<b>464,517</b>	<b>4.7%</b>
<b>Total</b>	<b>\$ 443,492</b>		<b>\$ 464,517</b>	<b>4.7%</b>

<b>GROSS MARGIN</b>					
	<b>FY 2002</b>	<b>% of Sales</b>		<b>FY 2003</b>	<b>% of Sales</b>
(In thousands)					
<b>By Business Unit:</b>					
RF and Wireless Communications Group	\$ 42,642	23.4%		\$ 45,687	22.3%
Industrial Power Group	29,181	30.7%		29,523	30.9%
Security Systems Division	20,080	23.6%		22,939	24.9%
Display Systems Group	15,864	26.1%		16,218	25.3%
Other	(13,601)			(15,277)	
	<b>94,166</b>	<b>21.2%</b>		<b>99,090</b>	<b>21.3%</b>
<b>Total</b>	<b>\$ 94,166</b>	<b>21.2%</b>		<b>\$ 99,090</b>	<b>21.3%</b>

<b>By Geographic Area:</b>					
North America	\$ 65,799	26.5%		\$ 67,863	26.1%
Europe	25,295	26.7%		28,387	27.5%
Asia/Pacific	15,861	23.0%		17,895	22.9%
Latin America	7,994	27.6%		5,274	25.7%
Corporate	(20,783)			(20,329)	

**GROSS MARGIN**

Total	\$ 94,166	21.2%	\$ 99,090	21.3%

**NOTE:** This data has been reclassified to conform with the fiscal 2004 presentation. The modifications include: reclassifying broadcast tubes from RF and Wireless Communications Group to Industrial Power Group; and reclassifying direct export and a portion of Corporate to the identified geographic areas based on ship to location.

Europe includes sales and gross margins to Middle East and Africa.

Corporate consists of freight and other non-specific sales and gross margins.

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*Sales and Gross Margins.* Consolidated sales in fiscal 2003 were \$464.5 million, up 4.7% from fiscal 2002 sales of \$443.5 million.

In the fourth quarter of fiscal 2002, we recorded a pre-tax provision for inventory obsolescence and overstock of \$15.3 million, \$9.8 million net of tax. The charge was driven by our sales not meeting our expectations, reflecting industrywide conditions, a prolonged recovery period, and changes in our mix of business toward higher technology products, particularly in the telecommunications market. Inventories that support the telecommunications market typically have more rapid obsolescence experience than our electron tube products, which represented the predominant amount of our historical sales. In the fourth quarter of fiscal 2003, we recorded an additional provision of \$13.8 million, \$8.8 million net of tax, 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.

We review our inventory on a quarterly basis. Inventory is evaluated from several perspectives, including quantity on hand based on historical sales activity and potential obsolescence based on projected future sales volumes and technology changes. We have a distinct seasonal pattern which is correlated with the timing of vacations of our customers in Europe and holidays within our fiscal calendar. The fiscal third quarter, comprised of December, January, and February, is a traditional holiday period and based on eight years of history, from fiscal 1994 to 2001, experiences an average 3.0% sequential decline in net sales. Conversely, our fiscal fourth quarter, comprised of March, April, and May, experiences an average 11.3% sequential increase in net sales, based on the period from fiscal 1994 to 2001. In fiscal 2002, we experienced our first full year sales decline since 1992 and the results in the fourth quarter were particularly adverse, as our industry continued its slump longer than many expected. During our quarterly reviews prior to the fourth quarter of 2002, we did not feel that, based on our historical results and our expectations going forward, our inventory required a write down. However, given results for the fourth quarter of 2002, we determined that a write down was appropriate. In fiscal 2003, a similar pattern held, in that our results for the first three quarters closely tracked historical patterns (with the third quarter actually beating the historical pattern). As in fiscal 2002, the fourth quarter was disappointing, and, again, we determined at that time that a write down was appropriate.

We recently 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. We are committed to inventory management as an ongoing process as the business evolves and technology changes.

In fiscal 2003, RF and Wireless Communications Group sales were up 12.3% from fiscal 2002 due to stronger US wireless communications demand, solid gains in passive and interconnect segments, and several large contract wins in North America. Gross margins continued to decline, dropping 110 basis points in fiscal 2003 primarily due to lower markups on several large contracts in the U.S.

Industrial Power Group sales in fiscal 2003 increased 0.5%, reflecting 20% growth in the sale of power semiconductors, primarily in industrial RF and industrial power conversion applications, offset by a 4% decline in the legacy tube business, primarily as a result of project timing in the broadcast tube market. Gross margins were up 20 basis points in fiscal 2003 primarily due to changes in product mix.

Security Systems Division sales were higher by 8.2% in fiscal 2003 primarily due to heightened concerns over security and acceleration in the conversion from analog to digital technology. Gross margins were up 130 basis points in fiscal 2003 as higher margin digital technology products represented a larger percentage of sales.

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Display Systems Group sales increased 5.8% in fiscal 2003 despite a decline in cathode ray tube sales of 10% offset by strong advances in custom flat panel monitor and medical monitor sales. The medical monitor business grew 31% in fiscal 2003 as we secured several large contracts with our new product offerings. Gross margins declined 80 basis points in fiscal 2003 as increased medical monitor sales carried lower margins.

On February 22, 2002, we sold our medical glassware business, including the reloading and distribution of X-ray, CT, and image intensifier tubes, to Royal Philips Electronics amid continued decline in sales and gross margins due to increased competition in the replacement market and production inefficiencies in tube reloading. Medical glassware sales fell 90.2% in fiscal 2003 as a result of the sale of the business at the end of the third quarter in fiscal 2002. The fiscal 2003 revenues represent sales of residual inventory as well as certain camera tubes we still sell into multiple markets.

North American sales increased 4.7% in fiscal 2003 as we benefited from improved demand in the US wireless communications market and continued gains in the Canadian security market, in which our Security Systems Division's operation, Burttek, is one of the leading suppliers.

European sales increased 8.9% in fiscal 2003, propelled by the strong Euro and solid gains in our Security Systems Division and Displays Systems Group.

Asia/Pacific marked its fifth consecutive year of double-digit growth as sales increased 13.6% in fiscal 2003. Taiwan, Japan, and China posted the largest gains in fiscal 2003 as we opened a third sales office in China and had a strong RF and Wireless Communications Group performance in Japan.

Latin American economies did not perform well during fiscal 2003 as they suffered from the effects of the global economic recession, weak investment inflows, political instability in several countries, and general uncertainty about the future economic policies of several countries. This was the main reason sales decreased 29.3% in fiscal 2003. Effects of the sold medical glassware business and continued devaluation of local currencies also contributed to the sharp decline.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$1.7 million in fiscal 2003 to \$100.7 million. Included in the SG&A expense is a restructuring charge of \$1.7 million as we eliminated over 70 positions or approximately 6% of our workforce and terminated a property lease contract. Increases in salaries, primarily resulting from employee merit increases, contributed over \$2.0 million to the SG&A rise. Incentives were up \$1.5 million in fiscal 2003 on higher sales while fringe benefits were up approximately \$1.0 million driven by increasing health-care costs and higher payroll. In fiscal 2002, we recorded a loss of \$4.6 million related to the sale of our medical glassware business.

*Other Income and Expense.* Interest expense decreased 16.4% in fiscal 2003 partially due to \$1.1 million lower charges related to the fair market value adjustments of the fixed rate swaps. Also, we benefited from historically low interest rates as our weighted average interest rate decreased to 6.09% on May 31, 2003, compared to 6.35% a year ago.

During the second quarter of fiscal 2004, we identified an accounting error that occurred in our Swedish subsidiary which affected interest expense previously reported for the prior seven quarters in the aggregate amount of \$738,000. We have restated financial results for fiscal years 2003 and 2002, which increased interest expense reported in those periods.

Investment income includes realized capital losses of \$61,000 in fiscal 2003 related to our investment portfolio. Foreign exchange and other expenses primarily reflect changes in the value of the U.S. dollar relative to foreign currencies.

*Income Tax Provision.* Our effective tax rates were 22.9% in fiscal 2003 and 35.6% in fiscal 2002. Differences between the effective tax rate as compared to the prior year and as compared to the

U.S. federal statutory rate of 34% principally result from our geographical distribution of taxable income and losses, certain non-tax deductible charges, and our foreign sales corporation benefit on export sales, net of state income taxes. In fiscal 2003, due to the fact that we are in a loss position, the lower tax rate is indicative of a lower tax benefit being recorded. This primarily resulted from the establishment of a \$1.6 million valuation reserve related to our deferred tax assets outside of the United States. As a result, no tax benefit was recognized on losses in certain foreign subsidiaries.

*Net Results.* In fiscal 2003, we posted a net loss of \$28.0 million. The loss includes, net of tax, \$17.9 million goodwill impairment charge, \$8.8 million charge related to inventory, \$1.1 million restructuring charge, and other charges of \$2.0 million.

We recorded a net loss of \$11.5 million in fiscal 2002 which included after tax charges related to the medical glassware business disposition of \$2.9 million, inventory obsolescence and overstock of \$9.8 million, and other charges of \$0.5 million.

*Year Ended May 31, 2002 Compared to Year Ended May 31, 2001*

The following table shows selected results of operations for the fiscal year ended May 31, 2002 compared to the fiscal year ended May 31, 2001 by business unit and geographic area.

	<b>SALES</b>		
	<b>FY 2001</b>	<b>FY 2002</b>	<b>% Change</b>
	(In thousands)		
<b>By Business Unit:</b>			
RF and Wireless Communications Group	\$ 220,545	\$ 181,969	-17.5%
Industrial Power Group	112,889	95,018	-15.8%
Security Systems Division	82,352	85,087	3.3%
Display Systems Group	59,476	60,697	2.1%
Other	27,107	20,721	
<b>Total</b>	<b>\$ 502,369</b>	<b>\$ 443,492</b>	<b>-11.7%</b>
<b>By Geographic Area:</b>			
North America	\$ 310,274	\$ 248,011	-20.1%
Europe	104,215	94,670	-9.2%
Asia/Pacific	56,735	68,817	21.3%
Latin America	28,050	29,013	3.4%
Corporate	3,095	2,981	
<b>Total</b>	<b>\$ 502,369</b>	<b>\$ 443,492</b>	<b>-11.7%</b>

## GROSS MARGIN

	FY 2001	% of Sales	FY 2002	% of Sales
(In thousands)				
<b>By Business Unit:</b>				
RF and Wireless Communications Group	\$ 57,904	26.3%	\$ 42,642	23.4%
Industrial Power Group	36,339	32.2%	29,181	30.7%
Security Systems Division	18,932	23.0%	20,080	23.6%
Display Systems Group	14,553	24.5%	15,864	26.1%
Other	3,882		(13,601)	
<b>Total</b>	<b>\$ 131,550</b>	<b>26.2%</b>	<b>\$ 94,166</b>	<b>21.2%</b>
<b>By Geographic Area:</b>				
North America	\$ 90,276	29.1%	\$ 65,799	26.5%
Europe	29,919	28.7%	25,295	26.7%
Asia/Pacific	17,238	30.4%	15,861	23.0%
Latin America	7,856	28.0%	7,994	27.6%
Corporate	(13,739)		(20,783)	
<b>Total</b>	<b>\$ 131,550</b>	<b>26.2%</b>	<b>\$ 94,166</b>	<b>21.2%</b>

**NOTE:** This data has been reclassified to conform with the fiscal 2004 presentation. The modifications include: reclassifying broadcast tubes from RF and Wireless Communications Group to Industrial Power Group; and reclassifying direct export and a portion of Corporate to the identified geographic areas based on ship to location.

Europe includes sales and gross margins to Middle East and Africa.

Corporate consists of freight and other non-specific sales and gross margins.

*Sales and Gross Margin.* Consolidated sales in fiscal 2002 were \$443.5 million, 11.7% down from fiscal 2001 sales of \$502.4 million.

In the fourth quarter of fiscal 2002, we recorded a pre-tax provision for inventory obsolescence and overstock of \$15.3 million, \$9.8 million net of tax. The charge was driven by our sales not meeting our expectations, reflecting industrywide conditions, a prolonged recovery period, and changes in our mix of business toward higher technology products, particularly in the telecommunications market. Inventories that support the telecommunications market typically have more rapid obsolescence experience than our electron tube products, which represented the predominant amount of our historical sales.

RF and Wireless Communications Group sales decreased 17.5% in fiscal 2002 to \$182.0 million reflecting lower demand primarily in North America and Europe due to the general state of the economy, particularly in the telecommunications market. The decline was partially offset by growth in Asia/Pacific and revenues of acquired businesses. Gross margin as a percent of sales was 23.4% in fiscal 2002, compared to 26.3% in fiscal 2001. The decline in margin in fiscal 2002 is primarily associated with lower markups on an expanded customer base in Asia/Pacific.

As part of our business model to grow through both product line and geographic expansion, we made a strategic acquisition in fiscal 2002 relating to the group. In July 2001, we acquired Sangus AB of Stockholm, Sweden, a leading distributor and manufacturers' representative specializing in design-in



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and engineering support for RF, microwave, and fiber optics to the wireless and communications markets in the Nordic region. The acquisition contributed \$8.7 million to sales in fiscal 2002.

Industrial Power Group sales declined 15.8% in fiscal 2002 reflecting lower investment levels for microwave equipment by the semiconductor industry as well as lower demand for both industrial and power conversion products. Gross margin was 30.7% in fiscal 2002, compared to 32.2% in fiscal 2001. The decline in margin in fiscal 2002 is primarily due to several large volume contracts at lower margins and changes in product mix.

Security Systems Division sales were higher by 3.3% in fiscal 2002 because of heightened concerns over security and an acceleration in the conversion from analog to digital technology. Gross margin was up to 23.6% in fiscal 2002 from 23.0% in fiscal 2001 as higher margin digital technology products represented a larger percentage of sales.

Display Systems Group sales increased 2.1% in fiscal 2002 with strong growth in custom flat panel monitor sales of 14.2% and growth in medical monitor sales of 6.2%, due to expanded product offerings, partially offset by a decline in cathode ray tube sales of 13.2% as markets shift to liquid crystal display monitors. Gross margin as a percent of sales was 26.1% in fiscal 2002, compared to 24.5% in fiscal 2001. The margin increase reflects a general improvement in flat panel monitor and medical monitor margins driven by increased value added from our engineered solutions model.

Other sales primarily consisted of medical system sales. On February 22, 2002, we sold our medical glassware business, including the reloading and distribution of X-ray, CT, and image intensifier tubes, to Royal Philips Electronics amid continued decline in sales and gross margins due to increased competition in the replacement market and production inefficiencies in tube reloading. Medical system sales decreased 25.8% in fiscal 2002 primarily as a result of the sale of the medical glassware business during the year.

North American sales decreased 20.1% in fiscal 2002 as a direct result of the general economic conditions particularly in telecommunication and semiconductor markets. Sales in Europe decreased 9.2% in fiscal 2002 primarily due to lower RF and Wireless Communications demand. Asia/Pacific sales increased 21.3% in fiscal 2002 led by strong RF and Wireless Communications growth. Sales in Latin America increased 3.4% in fiscal 2002 primarily due to RF and Wireless Communications and Security Systems growth.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$4.6 million in fiscal 2002 primarily due to the loss we recorded related to the sale of our medical glassware business. In fiscal 2002, the effect of acquisitions and continued investment in our engineering staff was partially offset by strict cost control measures on certain discretionary expenses.

*Other Income and Expense.* Interest expense increased 11.1% in fiscal 2002 primarily because of the charge related to the interest rate exchange agreements not designated as hedges upon the adoption of SFAS No. 133. Investment income includes realized capital gains of \$49,000 and \$222,000 in fiscal 2002 and fiscal 2001. Foreign exchange and other expenses primarily reflect changes in the value of the U.S. dollar relative to foreign currencies.

*Income Tax Provision.* Our effective tax rates were 35.6% in fiscal 2002 and 32.8% in fiscal 2001. The rates differ from the statutory rates of 34% in fiscal 2002 and 35% in fiscal 2001 primarily due to our foreign sales corporation benefit on export sales and, in fiscal 2001, realization of tax benefit on prior years' foreign losses, offset by state income taxes.

*Net Results.* In fiscal 2002, we recorded a net loss of \$11.5 million, compared to net income of \$17.7 million in fiscal 2001. The loss in fiscal 2002 included after tax charges related to the medical glassware business disposition of \$2.9 million, inventory obsolescence and overstock of \$9.8 million, and other charges of \$0.5 million.

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

In connection with the audit of our financial statements for the fiscal year ended May 29, 2004, KPMG LLP, our independent auditors, which we refer to as "KPMG," discussed with the Audit Committee a number of issues that may constitute material weaknesses in our internal control over financial reporting. Although these issues were identified by KPMG as material weaknesses in the meeting with the Audit Committee, it has informed us that its presentation did not constitute a formal or definitive notice to us that material weaknesses exist. KPMG has indicated that it is still in the process of completing its annual audit, but given the information it currently possesses, KPMG expects to deliver a letter to us at the conclusion of its audit reporting the existence of six material weaknesses in internal control, as discussed in "Prospectus Summary Recent Developments."

Ernst & Young LLP, which we refer to as "E&Y," audited our financial statements for our 2001, 2002 and 2003 fiscal years. We dismissed E&Y and appointed KPMG as our independent auditors in August 2003, as described under "Experts" beginning on page 86. KPMG has not completed an audit of, or issued an audit report with respect to, any of the financial statements included in this prospectus.

Upon completion of the annual audit, KPMG may identify additional issues which, either individually or in the aggregate, constitute a material weakness. KPMG has indicated to both the Audit Committee and management that none of the identified material weaknesses has resulted in material inaccuracies in our financial results for the fiscal year ended May 29, 2004. In addition, we believe that the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were and continue to be effective in timely alerting us to material financial information required to be included in our periodic filings. However, we cannot assure you that KPMG will not determine otherwise prior to the release of our Annual Report on Form 10-K for the fiscal year ended May 29, 2004 or that our internal control processes are sufficient to alert us to all material information that is required to be filed in our periodic reports with the SEC, or to provide reasonable assurance that our financial statements are fairly presented in conformity with accounting principles generally accepted in the United States. Additionally, ineffective internal controls would place us at increased risk of fraud or misuse of corporate assets.

To the extent that any material weaknesses are identified in our internal controls, significant resources from our management team may be required to implement and maintain effective controls and procedures. In addition, we may need to hire additional employees and further train our existing employees and may experience higher than anticipated capital expenditures and operating expenses, during the implementation of these changes and thereafter. If we are unable to implement these changes effectively or efficiently, there could be a material adverse effect on our operations or financial results.

We are evaluating our policies and procedures that relate to the material weaknesses identified by KPMG, and will implement any additional measures necessary to rectify any deficiencies in our internal controls as soon as practicable. We also intend to continue to conduct monthly financial reviews in an attempt to identify any discrepancies that may arise as a result of a failure of an internal control.

### **Earnings Guidance**

Our bookings (which we define to mean purchase orders which we have received from, or which have been communicated by, a customer) and backlog (which we define to mean bookings remaining and scheduled to be shipped within the next fiscal quarterly period) continued to strengthen throughout fiscal 2004, primarily associated with wireless growth and broad based increases in industrial demand for power products. At the end of the fourth quarter of fiscal 2004, backlog scheduled for shipment within the next three months has increased for four consecutive quarters and bookings have

increased for five consecutive quarters. Based on an assumed continuation of these trends and sales of new products, we currently anticipate growth in revenue and earnings for fiscal 2005. We currently estimate that revenues will range from \$580 million to \$620 million. We expect gross margin to be in the range of 24.7% to 25.3% with operating expenses between 20.5% and 21.0% of sales. We estimate that net income will be between \$8.9 million and \$10.3 million and that earnings per diluted share will be between \$0.60 to \$0.70, excluding the effect of the issuance of shares we are offering by this prospectus and the potential exchange offer.

In developing these estimates, we gave some weight to the amounts of recent percentage increases in backlog and bookings, which exceeded the anticipated growth rates in revenues and earnings per diluted share for fiscal 2005. Bookings in the fourth quarter of fiscal 2004 increased approximately 35% from the fourth quarter of fiscal 2003. Backlog at the end of the fourth quarter of fiscal 2004 increased approximately 55% compared to the prior year period end. However, due largely to the early stage of the possible economic recovery, and the fact that backlog has historically represented less than one-third of revenues in any fiscal quarter, we do not believe that the actual percentage increases in bookings and backlog are likely to result in comparable increases in annual revenues. Instead, we view the increases in bookings and backlog as providing an indication there is a reasonable possibility that the revenues will approximate their average historical seasonal pattern, based on the period from fiscal 1993 through 2003. We experience moderate seasonality in our business and typically realize lower sequential revenues in our first and third fiscal quarters, reflecting decreased transaction volume in the summer and holiday months. Conversely, we typically realize higher sequential revenues in the second and fourth fiscal quarters due to the absence of holidays and vacations. On an average sequential quarter basis during the period from fiscal 1993 through 2003, our first quarter revenues decreased approximately 5%, our second quarter revenues increased approximately 10%, our third quarter revenues decreased approximately 3% and our fourth quarter revenues increased approximately 9%. In fiscal 2004, the sequential fourth quarter sales increase is estimated to be approximately 14%. In any event, our estimates are subject to risks and uncertainties that could cause actual results to differ materially from those estimates, as described in "Risk Factors" and "Forward-Looking Statements."

#### **Liquidity and Capital Resources**

In recent years, we have financed our growth and cash needs largely through income from operations and borrowings under revolving credit facilities. Liquidity provided by our operating activities is reduced by working capital requirements, debt service, capital expenditures, dividends, and business acquisitions. Liquidity is increased by proceeds from borrowings and business dispositions.

We provide engineered solutions, including prototype design and assembly, in niche markets. Additionally, we specialize in certain products representing trailing-edge technology that may not be available from other sources, and may not be currently manufactured. In many cases, our products are components of production equipment for which immediate availability is critical to the customer. Accordingly, we enjoy higher gross margins, but have larger investments in inventory than those of a commodity electronics distributor.

Cash provided by operations was \$7.8 million in fiscal 2003 and \$33.1 million in fiscal 2002, while in fiscal 2001, \$18.7 million of cash was used in operations. Working capital requirements increased by \$3.2 million in fiscal 2003 as enhanced collection of receivables and improved inventory management did not fully offset a decrease in days payable. Working capital requirements decreased \$22.2 million in fiscal 2002 in line with the 11.7% sales reduction. In fiscal 2001, additional investments in working capital to support sales growth were \$44.4 million.

Cash and cash equivalents were \$19.7 million at February 28, 2004, an increase of \$2.9 million from the beginning of the year. During the first nine months of fiscal 2004, we generated \$14.2 million

of cash from operating activities. Working capital decreased \$4.3 million, largely due to an increase in accounts payable of \$7.6 million and a decrease in inventory of \$4.3 million, partially offset by a \$8.9 million accounts receivable increase.

Inventory days were approximately 89 days at the end of the third quarter of fiscal 2004, compared with 86 days at the end of the second quarter and 97 days at the end of fiscal 2003. Inventory levels and the associated inventory turns reflect our ongoing inventory management efforts. Inventory management remains an area of focus as we seek to balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements.

The increase in accounts receivable was due to increased sales volume as days sales outstanding was flat at 58 days at the end of the third quarter of 2004 as compared to the end of the second quarter and slightly down from the end of fiscal 2003 level of 59 days.

Days payable were approximately 27 days at the end of the third quarter of 2004, compared to 26 days at the end of the second quarter and 22 days at the end of fiscal 2003. The increase in days payable is primarily due to extended terms negotiated with vendors on large stocking orders.

Quarterly dividends of \$0.04 per common share and \$0.036 per class B common share in the total amount of \$1.7 million for the nine months were offset by \$1.5 million in proceeds from the exercise of stock options by employees, resulting in net cash used in financing activities of \$7.7 million. Annual dividend payments for fiscal 2003 amounted to \$2.2 million. The policy regarding payment of dividends is reviewed periodically by the board of directors in light of the Company's operating needs and capital structure. Over the last 15 years, the Company was in a position to regularly pay a quarterly dividend of \$0.04 per common share and \$0.036 per class B common share. Management currently expects this trend to continue in fiscal 2004.

We spent approximately \$3.9 million on capital projects during the first nine months of fiscal 2004 primarily related to PeopleSoft development costs and ongoing investments in information technology infrastructure. Over the next two quarters management estimates the capital expenditures to increase to approximately \$2.0 million per quarter as the enterprise resource planning software implementation progresses. The \$1.0 million earnout payment represents a cash outlay associated with the Pixelink and Celti acquisitions as the business units achieved certain operating performance criteria.

We spent approximately \$6.1 million on capital projects during fiscal 2003 primarily related to capitalized PeopleSoft development costs (\$3.0 million), facility improvements at the Corporate headquarters (over \$1.0 million), as well as ongoing efficiencies in operating and information technology infrastructure.

As of the end of fiscal 2003, we maintained \$138.4 million in long-term debt primarily in the form of two issues of convertible debentures and a multi-currency credit facility. In fiscal 2004, the interest payments on the debentures of \$2,767,000 each are scheduled for June and December of 2003. We have a multi-currency revolving credit facility agreement in the amount of \$102.0 million. The agreement matures in September 2005, when the outstanding balance at that time will become due. At May 31, 2003, \$65.8 million was outstanding on the facility. We have pledged substantially all of our assets, including stock of our subsidiaries, as security for our obligations under the credit facility. The agreement bears interest at applicable LIBOR rates plus a margin, varying with certain financial performance criteria. At May 31, 2003, the applicable margin was 225 basis points and \$36.2 million was available under the total facility. This amount was reduced to \$9.4 million due to the borrowing base limitations. At February 28, 2004, the applicable margin was 225 basis points, \$60.5 million was outstanding and \$41.5 million was available under the total facility. This available amount was reduced to \$17.8 million due to the borrowing base limitations.

In the nine-month period of fiscal 2004, we reduced our long-term debt by \$6.5 million as \$7.6 million was paid down under the multi-currency credit facility. Foreign currency translation increased the debt by \$1.6 million, while payments on the interest rate exchange hedges accounted for the balance of the debt reduction. We were in compliance with all debt covenants for the nine-month period ended February 28, 2004.

The credit agreement and debenture indentures contain financial covenants with which we were in full compliance at May 31, 2003 and February 28, 2004. These covenants include benchmark levels for tangible net worth, borrowing base, senior funded debt to cash flow, and annual debt service coverage. In addition, we would be in default of our credit agreement if Mr. Edward Richardson's stock were not sufficient for him to elect a majority of our board of directors and control any amendment to our by-laws. In connection with this offering and the exchange offer, we have obtained the consent and waiver from the lenders of certain covenants contained in the credit agreement, subject to certain customary conditions. See "The Exchange Offer."

We have interest rate exchange agreements to convert approximately \$37.2 million of our floating rate debt to an average fixed rate of 8% through July 2004. At June 1, 2001, in connection with the adoption of SFAS No. 133, we recorded a transition adjustment relating to these agreements, which reduced other accumulated comprehensive income in shareholders' equity by \$971,000, after tax. In addition, we recorded \$789,000 in fiscal 2003 and \$1,926,000 in fiscal 2002 related to these agreements as additional interest expense in the statement of operations.

As of February 28, 2004, we had \$30,825,000 aggregate principal amount of our 7<sup>1</sup>/<sub>4</sub>% debentures outstanding and \$40,000,000 aggregate principal amount of our 8<sup>1</sup>/<sub>4</sub>% debentures outstanding. If we are unable to exchange or redeem all or some of this debt, it is likely that we will not be able to generate sufficient cash to repay the outstanding debentures at maturity. The working capital requirements of our business result in substantial fluctuations in our cash balances during fiscal quarters. We are unlikely to be able to redeem or repay the outstanding debentures at maturity without depleting our cash balance to a level that would be insufficient to support our business.

We also plan to offer to exchange any and all of our outstanding debentures that are validly tendered and not withdrawn for an equal principal amount of notes. The exchange offer, if commenced, would be made by a separate prospectus and the related letter of transmittal. The exchange offer would not be contingent upon the closing of this offering. While we believe we would be able to strengthen our financial position, improve our capital structure, and reduce our cash expenditures by conducting the exchange offer, we may not be successful. If we do not commence the exchange offer or if it is unsuccessful and we are unable to repay the outstanding debentures at maturity, our default in payment of the outstanding debentures would trigger an event of default, or a cross-default, under the separate indenture that would govern any notes that may be issued in the exchange offer as well as our credit agreement and could trigger acceleration of the related debt. In addition, the lenders under our credit agreement could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under our credit agreement or the indentures governing the outstanding debentures or the notes could adversely affect our growth, our financial condition, our results of operations, our ability to make payments on our debt obligations, our ability to obtain favorable financing terms and, ultimately, could affect our ability to continue as a going concern and could require us to seek judicial or bankruptcy relief.

Currently, we do not have any financing plans for payment of the outstanding debentures other than this offering and the exchange offer. If this offering is successfully completed, we intend to use the net proceeds to repay borrowings under our credit agreement. Subsequently, in the event debentures remain outstanding after completion of the exchange offer, we intend to reborrow an amount not in excess of the net proceeds of this offering to redeem those debentures to the extent of such proceeds.

If the proceeds from this offering are insufficient to redeem all of the outstanding debentures and the exchange offer is not commenced or is unsuccessful, we will evaluate alternative financing plans for payment of the outstanding debentures at that time, taking into account the then existing market conditions. See "The Exchange Offer."

We believe that the exchange offer, if successful, would strengthen our financial position, improve our capital structure and reduce our cash expenditures by:

reducing our interest expense;

increasing the likelihood that those who hold our convertible debt securities will elect to convert into shares of our common stock due to the expected lower conversion price of the notes as compared to the outstanding debentures; and

issuing the notes with an expected maturity date beyond that of the outstanding debentures, both series of which mature in 2006. See "The Exchange Offer."

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

On June 8, 2004, we entered into a contract to sell approximately 205 acres of real estate adjoining our headquarters for \$10,966,500. The contract is subject to a number of conditions, including governmental approvals, including rezoning to permit development of a residential subdivision, as well as environmental testing and other customary conditions. Accordingly, we cannot give any assurance as to the timing or successful completion of the transaction.

#### Contractual Obligations and Contingent Commitments

Certain contractual obligations and other commercial commitments as of February 28, 2004 by expiration period are presented in the table below:

Payments due by fiscal period as of February 28, 2004

	2004	2005	2006	2007	2008	Beyond	Total
Convertible debentures	\$	\$ 3,850	\$ 6,225	\$ 60,750	\$	\$	\$ 70,825
Floating-rate multi-currency revolving credit facility			60,435				60,435
Financial instruments	448	149					597
Facility lease obligations	991	2,971	1,973	1,037	711	740	8,423
Performance bonds		645					645
Contingent and earnout payments	5,979	1,084					7,063
Other	15	70					85
Total	\$ 7,433	\$ 8,769	\$ 68,633	\$ 61,787	\$ 711	\$ 740	\$ 148,073

Convertible debentures consist of the 8<sup>1</sup>/<sub>4</sub>% debentures, with principal of \$40,000,000 due June 2006, and the 7<sup>1</sup>/<sub>4</sub>% debentures, with principal of \$30,825,000 due December 2006. With respect to the 7<sup>1</sup>/<sub>4</sub>% debentures, we are required to make sinking fund payments of \$3,850,000 in fiscal 2005 and \$6,225,000 in fiscal 2006. The floating-rate multi-currency revolving credit facility matures in September of 2005 and bears interest at applicable LIBOR rates plus a 225 basis point margin. Financial instruments represent remaining liability associated with our interest rate exchange agreements. Facility lease obligations are related to certain warehouse and office facilities under non-cancelable operating leases. Certain African and Latin American customers require performance bonds with expiration dates between July and December of 2004, renewable annually. Contingent and earnout payments represent additional consideration to be paid pursuant to certain of our acquisition agreements assuming certain operation performance criteria are met. We acquired Pixelink Corporation during fiscal year 1999 and Celti Electronics and AVIV Electronics during fiscal year 2001. The terms of these acquisition



agreements provide for additional consideration to be paid if the acquired entities results of operations exceed certain targeted levels or other criteria. For Aviv, additional consideration will be paid on a percentage of operating income with a guaranteed minimum. For Pixelink, additional consideration will be paid on a percentage of operating income and in the case of Celti, additional consideration will be paid on a percentage of operating income once a minimum threshold is achieved. Such amounts are paid in cash and recorded when earned as additional consideration and amounted to \$764,000 and \$1,008,000 for the nine months ended February 28, 2003 and 2004, respectively. Contingent and earnout payments, including the amounts paid during fiscal 2004 to date, associated with these acquisitions amount to \$5,979,000 and will be payable in fiscal 2004, assuming the goals established in all agreements are met. The \$1,084,000 fiscal year 2005 contingent and earnout payment will be payable in fiscal 2005 assuming the goals established in the acquisition agreement are met.

Our management believes that the existing sources of liquidity, including current cash and equivalents as well as cash provided by operating activities, supplemented as necessary with funds available under our credit arrangements, will provide sufficient resources to meet our present and future working capital and other cash requirements for at least the next twelve months.

### **Critical Accounting Policies and Estimates**

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

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 the Company's 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 and their dispersion across wide 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. As of May 31, 2003, the balance in the account was \$3,350,000.

*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.



In fiscal 2003, an investment impairment of \$72,000 was recorded in operating results. In addition, the carrying value of certain investments was \$240,000 below cost based on the closing prices on May 31, 2003. In preparing fiscal 2003 financial statements, management concluded that these stock price declines were temporary and no additional write-down was required as of May 31, 2003.

*Inventories.* In fiscal 2001, 2002 and 2003, we carried our inventories at the lower of cost or market using the last-in, first-out (LIFO) method. Effective June 1, 2003, the North American operations, which represent a majority of our operations and approximately 76% 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. 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 demand, change in the industry, or market conditions differ from management's estimates, additional provisions may be necessary.

In fiscal 2003 and 2002, we recorded inventory obsolescence and overstock provisions of \$13.8 million and \$15.3 million, respectively, which were included in the cost of sales. The provisions were principally for obsolete and slow moving parts. The parts were written down to estimated realizable value.

We recently implemented new policies and procedures to strengthen our inventory management process while continuing to invest in system technology to further enhance our inventory management tools. These policy and procedure changes included increased approval authorization levels for inventory purchases, quarterly quantitative and qualitative inventory aging analysis and review, changes in our 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 our 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. 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 Statement of Financial Accounting Standard No. 142 (SFAS 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 annual impairment test during the fourth quarter of fiscal 2003. We did not find any indication that additional impairment existed and, therefore, no additional impairment loss was recorded.

## New Accounting Pronouncements

In June 2002, the FASB issued Statement of Financial Accounting Standard No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 provides guidance on the accounting for recognizing, measuring, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS 146 adjusts the timing of when a liability for termination benefits is to be recognized based on whether the employee is required to render future service. A liability for costs to terminate an operating lease or other contract before the end of its term is to be recognized when the entity terminates the contract or ceases using the rights conveyed by the contract. All other costs associated with an exit or disposal activity are to be expensed as incurred. SFAS 146 requires the liability to be measured at its fair value with subsequent changes in fair value to be recognized each reporting period utilizing an interest allocation approach. The pronouncement is effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, FASB issued Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires certain guarantees to be measured at fair value upon issuance and recorded as a liability. In addition, FIN 45 expands current disclosure requirements regarding guarantees issued by an entity, including tabular presentation of the changes affecting an entity's aggregate product warranty liability. The recognition and measurement requirements of the interpretation are effective prospectively for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for us commencing in our annual financial statements for the fiscal year ended May 31, 2003.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends certain provisions of SFAS 123 to require that disclosure of the pro forma effect of applying the fair value method of accounting for stock-based compensation be prominently displayed in an entity's accounting policy in annual and interim financial statements. We are required to follow the prescribed format and provide the additional disclosures required by SFAS 148 in its annual financial statements for the fiscal year ended May 31, 2003, and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the quarterly period ending February 28, 2003.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities (VIE). FIN 46 requires that if a company holds a controlling financial interest in a VIE, the assets, liabilities, and results of the VIE's activities should be consolidated in the entity's financial statements. We do not expect FIN 46 to have a material impact on our consolidated results of operations or financial position.

SFAS 149 was issued in April 2003 and amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 149 is generally effective for derivative instruments, including derivative instruments embedded in certain contracts, entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We do not expect the adoption of SFAS 149 to have a material impact on our operating results or financial condition.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristic of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within the scope as a liability (or an asset in some circumstances) because that

financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim periods beginning after June 15, 2003. The pronouncement is not expected to have a material impact on our consolidated results of operations or financial position.

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

Our foreign denominated assets and liabilities are cash, accounts receivable, inventory, and accounts payable, 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. In fiscal 2003, we entered into two such transactions with a total value of approximately \$450,000. Through the first nine months of fiscal 2004, we entered into only one forward contract with an approximate value of \$85,000. 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 of our operations, assets, and liabilities are denominated in foreign currencies subjecting us to foreign currency exchange risk. In order to provide the user of these financial statements guidance regarding the magnitude of these risks, the Securities and Exchange Commission requires us to provide certain quantitative disclosures based upon hypothetical assumptions. Specifically, these disclosures require the calculation of the effect of a 10% increase in market interest rates and a uniform 10% strengthening of the U.S. dollar against foreign currencies on our reported net earnings and financial position.

Under these assumptions, additional interest expense, tax effected, would have increased the net loss by \$81,000 in fiscal 2003 and \$247,000 in fiscal 2002, respectively. These amounts were determined by considering the impact of the hypothetical 10% interest rate increase on our variable rate outstanding borrowings.

Had the U.S. dollar strengthened 10% against various foreign currencies, sales would have been lower by an estimated \$20.2 million in fiscal 2003 and \$19.3 million in fiscal 2002. Total assets would have declined by \$7.5 million and \$8.1 million, while the total liabilities would have decreased by \$4.4 million and \$4.1 million in fiscal 2003 and fiscal 2002, respectively. These amounts were determined by considering the impact of the hypothetical 10% decrease in average foreign exchange rates against the U.S. dollar on the sales, assets, and liabilities of our international operations.

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

## THE EXCHANGE OFFER

### General

We also expect to offer to exchange \$1,000 principal amount of notes for each \$1,000 principal amount of our 7<sup>1</sup>/<sub>4</sub>% debentures or 8<sup>1</sup>/<sub>4</sub>% debentures that are validly tendered and not withdrawn. We expect the exchange offer will be subject to important conditions, including that at least 75% of the outstanding debentures are validly tendered and not withdrawn by the expiration of the exchange offer, subject to our reserved rights to amend or waive those conditions or otherwise terminate the exchange offer. The exchange offer, if commenced, would be made by a separate prospectus and the related letter of transmittal. The exchange offer would not be contingent upon the closing of this offering. We expect to commence the exchange offer after the closing of this offering.

We will not establish the terms of the notes until shortly before we commence the exchange offer. While we expect the terms of the notes to reflect those described below, we cannot assure you that the final terms will not change from those described below.

### Description of Notes

We expect that the notes will mature in 2011 unless earlier converted, redeemed, or repurchased and will be issued in denominations of \$1,000 and integral multiples thereof. The notes will be limited to \$70,825,000 aggregate principal amount.

The notes will be our unsecured obligations. The payment of principal of, and interest on, the notes, as set forth in the indenture, will rank senior to the following:

the 7<sup>1</sup>/<sub>4</sub>% debentures;

the 8<sup>1</sup>/<sub>4</sub>% debentures, which are also senior to the 7<sup>1</sup>/<sub>4</sub>% debentures; and

future indebtedness that is expressly made subordinate to the notes.

The notes will be subordinated to our Senior Indebtedness (as defined in the indenture governing the notes), including amounts borrowed under our credit agreement and future indebtedness that is not expressly subordinate to the notes. As of February 28, 2004, we had \$61,117,355 in Senior Indebtedness. In addition, the notes will be structurally subordinate to any indebtedness of our subsidiaries. Any right of ours to receive assets of any of our subsidiaries upon their insolvency, dissolution or reorganization and the dependent right of holders of the notes to have rights in those assets, will be subject to the prior claim of any creditors of that subsidiary. As of February 28, 2004, our subsidiaries had \$14,976,701 of indebtedness, excluding indebtedness that is also Senior Indebtedness.

The notes may be converted into shares of our common stock at a specified conversion price per share of common stock. The conversion price will be subject to adjustment if certain events occur, including, but not limited to, the payment of cash dividends in excess of an annualized rate of \$0.16 per share of common stock.

Initially, the notes will not be redeemable by us at any time. On or after a certain date, we will be able to 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 above the conversion price for 20 trading days during any 30 trading day period prior to the date of mailing of the redemption notice. On or after a certain date, we will be able to 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. In addition, upon a change of control, holders of notes will have the right to require us to repurchase the notes at 101% of the principal amount thereof plus accrued and unpaid interest to the date of redemption, if any. We will be able to pay the repurchase price in cash, or in shares of our common stock based on a discounted formula price.

The notes will be issued under an indenture between us and a trustee. The indenture will not limit the amount of debt, including Senior Indebtedness, that we may issue or incur. The indenture will be subject to and governed by the Trust Indenture Act of 1939, as amended.

## OUR BUSINESS

### Our Company

We are a global provider of engineered solutions and a distributor of electronic components to the radio frequency, or RF, and wireless communications, industrial power conversion, 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. We estimate that sales involving engineered solutions are in the range of approximately 50% of our total sales, consisting 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 to be 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 ven