

RICHARDSON ELECTRONICS LTD/DE
Form 10-K
July 31, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

x FOR ANNUAL REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2008

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-12906

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2096643
(I.R.S. Employer
Identification No.)

40W267 Keslinger Road, P.O. Box 393,

LaFox, Illinois 60147-0393

(Address of principal executive offices)

Registrant's telephone number, including area code:(630) 208-2200

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

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Title of each class	Name of each exchange of which registered
Common stock, \$0.05 Par Value	NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 1, 2007, was approximately \$92.7 million.

As of July 28, 2008, there were outstanding 14,864,561 shares of Common Stock, \$.05 par value and 3,048,258 shares of Class B Common Stock, \$.05 par value, which are convertible into Common Stock of the registrant on a one-for-one basis.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders scheduled to be held October 7, 2008, which will be filed pursuant to Regulation 14A, are incorporated by reference in Part III of this report. Except as specifically incorporated herein by reference, the above mentioned Proxy Statement is not deemed filed as part of this report.

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Forward Looking Statements

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms may, should, could, anticipate, believe, continues, estimate, expect, intend, objective, plan, potential, project and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of this Form 10-K. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General

Richardson Electronics, Ltd. (we , us , and our) was originally incorporated in the state of Illinois in 1947 and is currently incorporated in the state of Delaware. We are a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, and display systems markets with total sales in fiscal 2008 of \$568.4 million. Utilizing our core engineering and manufacturing capabilities, we are committed to a strategy of providing specialized technical expertise and value-added products, or engineered solutions, in response to our customers' needs. These solutions include products which we manufacture or modify and products which are manufactured to our specifications by independent manufacturers under our own private labels. Additionally, we provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of our customers. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

Our fiscal year 2008 began on June 3, 2007, and ended on May 31, 2008. Unless otherwise noted, all references in this document to a particular year shall mean our fiscal year.

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

Our sales and marketing, product management, and purchasing functions are organized as follows:

RF, Wireless & Power Division (RFPD) serves the global RF and wireless communications market, including infrastructure, wireless networks, and the power conversion market.

Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

Display Systems Group (DSG) is a global provider of integrated display products, systems and digital signage solutions serving financial, corporate enterprise, healthcare, and industrial markets.

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We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

On May 31, 2007, we completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) to Honeywell International Incorporated (Honeywell). SSD/Burtek is presented as a discontinued operation in accordance with the criteria of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), and prior period results and disclosures have been restated to reflect this reporting.

Selected financial data attributable to each segment and geographic region for fiscal 2008, 2007, and 2006 is set forth in Note 12 Segment and Geographic Data of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

RF, Wireless & Power Division

Our RFPD serves the global RF and wireless communications market, including infrastructure and wireless networks and the power conversion markets. Our team of RF and wireless engineers assist customers in designing circuits, selecting cost-effective components, planning reliable and timely supply, prototype testing, and assembly. The team offers its customers and vendors a broad range of engineering and technical support including the design-in of RF, wireless and power components and the development of engineered solutions for their support system requirements. Our team of power conversion engineers design solutions for applications such as motor speed controls, industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. The team builds on its expertise in power conversion technology to provide engineered solutions to its customers' specifications using components from industry-leading vendors.

We expect continued growth in wireless applications. As demand for wireless communication increases worldwide, 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. We believe wireless and power conversion products for niche applications, which will require engineered solutions using the latest RF technology and electronic components, include:

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

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

Power Conversion Alternative energy, high power applications such as power suppliers, welding, motor controls, and converting AC/DC and DC/AC.

Our growth is supported by our collaboration with leading manufacturers. A key factor in our ability to maintain a strong relationship with our vendors and to attract new vendors is our ability to supply them with worldwide demand forecasts for their existing products as well as products they have in development. We have developed internal systems to capture forecasted product demand by potential design opportunity based on dialogue between our sales team and our customers. We share this information with our suppliers to help them forecast near and long-term demand and product life cycles.

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We have global distribution agreements with leading suppliers such as ANADIGICS, Advanced Power Technologies, Aavid, Anaren, ATC, Cornell-Dubilier, Freescale, HUBER+SUHNER, M/A-COM, Peregrine, Vishay, Wakefield, and WJ Communications. In addition, we have relationships with many niche RF, wireless, and power suppliers allowing us to serve as a comprehensive RF, wireless, and power resource.

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

The following is a description of RFPD's major product areas:

RF and Microwave Active Devices a wide variety of components, such as RF transistors, mixers, switches, amplifiers, oscillators, and RF diodes, which are used in infrastructure, wireless networking, and other related markets, such as broadcast, cable TV, cellular and personal communication services, telephony, satellite, wireless local area networks, and various other wireless applications.

RF & Microwave Passive Devices components used in the transmit and receive side of all types of electronic equipment including those employing RF technology.

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

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

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

Electron Device Group

Our EDG provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries. Our team of engineers design solutions for applications such as industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. The group builds on our expertise in high power, high frequency vacuum devices to provide engineered solutions to fit our customers' specifications using competitive components from industry-leading vendors.

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

We represent leading manufacturers of electron tubes and semiconductor manufacturing equipment used in industrial power applications. Among the suppliers we support are Amperex, CPI, Draloric, Eimac, General Electric, Hitachi, Jennings, Litton, L3, National, NJRC, and Thales.

The following is a description of EDG's major product areas:

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

power supplies for voltage regulation or amplification.

Magnetrons microwave tubes used in industrial applications ranging from industrial scale food processing and plasma generation for semiconductor fabrication processes, to marine and avionics radar.

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Contract Manufacturing specializing in projects requiring use of sophisticated processes, low to medium volume, and for industries insisting upon a high level of quality including copy exact discipline. The semiconductor equipment, medical equipment, and industrial equipment markets have been the primary market segments targeted to date.

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

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

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

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

Display Systems Group

Our DSG is a leading global provider of integrated display products, workstations, and value-added services to the healthcare, industrial original equipment manufacturer (OEM), and digital signage markets. Our engineers manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer custom display solutions that include touch screens, protective panels, custom enclosures, specialized cabinet finishes, application specific software packages, and our own privately-branded display products. In addition, we partner with leading branded hardware vendors to offer the highest quality liquid crystal displays, mounting devices, and customized computing platforms.

Our medical imaging hardware partnership program allows us to deliver integrated hardware and software solutions for the growing medical imaging market in its transition from film-based technology to digital technology by combining our hardware expertise in medical imaging display solutions, workstations, peripherals, technical support and services with our software partners expertise in picture archiving and communications systems (PACS). Through such collaborative arrangements, we are able to provide integrated imaging workstation systems with technical support and services to the end user and resellers, as well as other medically approved display solutions for various other modalities in the hospital such as endoscopy and cardiology. We have also been successful in supporting the needs of the operating room by providing specialized large screen LCD displays.

The industrial OEM market offers a vast array of custom based project opportunities that complement our ability to provide value-added manufacturing capabilities. We continue to focus on specialty display applications by leveraging engineering resources and advanced technologies. We meet the needs of this complex market environment by providing programs and material management services.

The digital signage market is an area that represents a tremendous growth opportunity for us. We utilize a turn-key approach for growing sales and services revenue specific to signage applications, targeting (but not limited to) the enterprise, financial, and hospitality markets. We provide display hardware and associated products, computers, and software that are either branded or custom variations. We offer a suite of services and support including installation, maintenance, phone and internet support.

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We have long-standing relationships with key component and finished goods manufacturers including 3M, AUO, CMO, Eizo, Fimi Philips, HP, IBM, Intel, LG, NEC Displays, Planar Systems, Sharp Electronics, Samsung, and WIDE Corporation. We believe our distributor relationships in conjunction with our OEM manufacturing capabilities and private label brands allow us to maintain a well-balanced and technologically advanced line of products.

The following is a description of DSG's major product areas:

Custom LCD Displays flat panel display monitors which are usually integrated with touch screen technology or special mounting configurations based on the customer's requirements.

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

Surgical Displays Large screen LCD displays for use in hospital operating rooms and video displays used in endoscopic procedures.

Custom Workstations Custom server platforms for the infrastructure of financial exchanges, small profile workstations for digital signage, flight information and kiosk applications, and imaging workstations for radiologists.

Products and Suppliers

We evaluate our customers' needs and maintain sufficient inventories to ensure our position as a reliable source of supply. On average, we hold 90 days of inventory in the normal course of operations. This level of inventory reflects the fact that we sell a number of products representing trailing edge technology that are not as readily available from other sources. The market for these trailing edge technology products is declining. As manufacturers for these products exit the business, we, at times, purchase a substantial portion of their remaining inventory. Our inventory levels also reflect our commitment to maintain an inventory of a broad range of products for customers who are buying product for replacement of components used in critical production equipment. In certain segments of our business, such as RFPD and DSG, the market for our products is characterized by rapid change and obsolescence as a result of the introduction of new technologies.

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

Our suppliers generally warrant the products we distribute and allow return of defective products, including those returned to us by our customers. Except with respect to certain displays, we generally do not provide additional warranties on the products we sell. For information regarding the warranty reserves, see Note 1 "Significant Accounting Policies" of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

In addition to third party products, we sell proprietary products principally under certain trade names we own including: *Amperex*[®], *Cetron*[®], *Image Systems*[®], *National*[®], and *Pixelink*[®]. Our proprietary products include RF amplifiers, transmitters and pallet assemblies, thyratrons and rectifiers, power tubes, ignitrons, magnetron tubes, phototubes, spark gap tubes, microwave generators, custom RF matching networks, heatsinks, silicon controlled rectifier assemblies, large screen display monitors, liquid crystal display monitors, and computer workstations. The materials used in the manufacturing process consist of glass bulbs and tubing, nickel, stainless

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steel and other metals, plastic and metal bases, ceramics, and a wide variety of fabricated metal components. These materials are generally readily available, but some components may require long lead times for production, and some materials are subject to shortages or price fluctuations based on supply and demand.

Sales and Product Management

As of the end of fiscal 2008, we employed 505 sales and product management personnel worldwide. In addition, we have authorized representatives, who are not our employees, selling our products, primarily in regions where we do not have a direct sales presence. Many of our sales representatives focus on just one of our segments, while others focus on all of our segments within a particular geographic area.

We offer various credit terms to qualifying customers as well as prepayment, credit card, and cash on delivery terms. We establish credit limits prior to selling product to our customers and routinely review delinquent and aging accounts.

Distribution

We maintain more than 940,000 part numbers in our product inventory database and we estimate that more than 80% of orders received by 6:00 p.m. local time are shipped complete the same day. Customers can access our product inventory through electronic data interchange, either on our web site, www.rell.com, through our catalog, www.catalog.rell.com, or by telephone. Customer orders are processed by the regional sales offices and supported by one of our hub distribution facilities in LaFox, Illinois; Amsterdam, Netherlands; or Singapore, Republic of Singapore. We utilize a sophisticated data processing network that provides on-line, real-time interconnection of all sales offices and central distribution operations, 24 hours per day, seven days per week. Information on stock availability, cross-reference information, customers, and market analyses are obtainable throughout the entire distribution network.

International Sales

During fiscal 2008, approximately 61% of our sales and purchases of products were made outside the U.S. We will continue to pursue new international sales to expand our international reach.

Backlog

Our backlog of orders was approximately \$149.2 million and \$140.5 million as of May 31, 2008, and June 2, 2007, respectively. We expect to fill all backlog orders during fiscal 2009.

Employees

As of May 31, 2008, we employed 930 individuals, of which 911 were employed on a full-time basis and 19 were employed on a part-time basis. Of these, 514 were located in the United States and 416 were located internationally. The worldwide employee base included 505 in sales and product management, 84 in distribution support, 251 in administrative positions, and 90 in value-added and product manufacturing. All of our employees are non-union and we consider our relationships with our employees to be good.

Competition

We believe that engineering capabilities, exclusive vendor relationships, and breadth of product offerings create differentiation with our competitors. Key competitive factors in our markets include the ability to provide engineered solutions, reliable delivery at competitive prices, marketing technical support, and maintaining inventory availability and quality. We believe that, on a global basis, we are a significant provider of engineered solutions and products which utilize RF and power semiconductors and subassemblies, electron tubes, cathode ray tubes, and custom and medical monitors. In many ways, we compete with our customer base. Our customers

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decision includes the ability to make or buy from the OEM for replacement parts or to do a system upgrade to service existing installed equipment. In addition, we compete worldwide with other general line distributors and other distributors of electronic components.

Patents and Trademarks

We hold or license certain manufacturing patents and trademark rights. Although our patents and trademarks have value, they are not the primary reason for our success. Our success depends principally upon our ability to provide engineered solutions, reliable delivery at competitive prices, provide marketing technical support, and maintaining inventory availability and quality.

Seasonal Variations

We experience moderate seasonality in our business and typically realize higher sequential sales in our second and fourth fiscal quarters. This reflects increased transaction volume after the summer and holiday months which take place in our first and third fiscal quarters.

Website Access to SEC Reports

We maintain an Internet website at www.rell.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 are accessible through our website, free of charge, as soon as reasonably practicable after these reports are filed electronically with the Securities and Exchange Commission. To access these reports, go to our website at www.rell.com. The foregoing information regarding our website is provided for convenience and the content of our website is not deemed to be incorporated by reference in this report filed with the Securities and Exchange Commission.

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Item 1A. Risk Factors

Investors should consider carefully the following risk factors, in addition to the other information included and incorporated by reference in this Annual Report on Form 10-K. While we believe we have identified the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our results of operations.

These risks are not the only risks that we currently face. Our business operations and financial condition could also be materially adversely affected by risks and uncertainties that are not presently known or that we currently deem immaterial.

We have several years of historical losses and may have future losses.

We had a loss from continuing operations of \$8.5 million during the fiscal year ended May 31, 2008. We also had losses from continuing operations of approximately \$4.0 million and \$18.8 million during fiscal 2006 and fiscal 2005, respectively. We may continue to incur losses in the future. As a result, we can give no assurance that we will be capable of sustaining profitable operations.

We must continue to reduce our costs in order to compete effectively.

We have taken, and continue to take, actions intended to reduce costs and increase productivity. Our ability to complete these actions and the impact of such actions on our business may be limited by a variety of factors. The cost-reduction actions, in turn, could have the effect of reducing our talent pool and available resources and, consequently, could have long-term effects on our business by affecting our ability to respond to customers and limiting our ability to hire and retain key personnel. These circumstances could negatively affect our financial performance and, as a result, adversely affect our stock price.

In fiscal 2006 through 2008, we implemented plans to centralize our inventory distribution in three hubs located in the United States, Europe and Asia/Pacific, restructure our Latin American operations, and reduce our total workforce. Total restructuring costs to implement these plans were approximately \$4.9 million, of which \$2.2 million of severance costs were recorded during fiscal 2007 and \$2.7 million of severance costs were recorded during the fourth quarter of fiscal 2006.

During the third quarter of fiscal 2008, our Display Systems Group (DSG) began implementing a new business plan that included exiting unprofitable market segments, exiting distribution of low margin branded products, and an increased focus on digital signage. As a result of the shift in business focus, DSG eliminated more than 30 positions which we expect to result in more than \$3.0 million of annualized cost savings.

The impact of the cost-reduction actions on our sales and profitability may be influenced by factors including, but not limited to: (i.) our ability to successfully complete these efforts; (ii.) our ability to generate the level of cost savings we need to effectively compete; (iii.) delays in implementation of anticipated workforce reductions in highly-regulated locations outside of the United States, particularly in Europe and Asia; (iv.) decreases in employee morale and the failure to meet operational targets due to the loss of employees; and (v.) our ability to retain or recruit key employees.

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

As a supplier of electronic components and services to a variety of industries, we can be adversely affected by general economic downturns. 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 such things as outbreaks of hostilities, terrorist actions, or epidemics in the United States or abroad.

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We maintain a significant investment in inventory. We have also incurred significant charges for inventory obsolescence, 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, 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 allows our customers to reduce or discontinue their purchases. If we fail to anticipate the changing needs of our customers and accurately forecast our customer demands, 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. This may result in a significant decline in the value of our inventory.

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 the demand for new products or 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 failed 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. 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 could harm our results of operations.

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 the markets we serve. Our competition includes hundreds of electronic component distributors of various sizes, locations, and market focuses as well as original equipment manufacturers. We also continue to face competition with various direct marketers. Some of our competitors have greater resources and broader name recognition than we do. As a result, these competitors may be able to better withstand changing conditions within our markets and throughout the economy as a whole.

Engineering capability, vendor representation, and product diversity create differentiation among distributors. Our ability to compete successfully will depend on our ability to provide engineered solutions, reliable delivery at competitive prices, technical support, and maintain inventory availability.

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 and experience a deterioration of our overall financial results.

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

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

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Our products may be found to be defective and, as a result, warranty and/or product liability claims may be asserted against us, which may have a material adverse effect on us.

We sell many of our components at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. Since a defect or failure in a product could give rise to failures in the end products that incorporate them, we may face claims for damages that are disproportionate to the revenues and profits we receive from the products involved in the claims. While we typically have provisions in our supplier agreements that hold the supplier accountable for defective products, and we and our suppliers generally exclude consequential damages in our standard terms and conditions, our ability to avoid such liabilities may be limited as a result of differing factors, such as the inability to exclude such damages due to the laws of some of the countries where we do business. Our business could be materially adversely affected as a result of a significant quality or performance issue in the products sold by us, if we are required to pay for the damages that result. Although we have product liability insurance, such insurance is limited in coverage and amount.

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

Because we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenue from international operations will continue to represent a majority of our total revenue. In addition, many of our employees, suppliers, job functions and warehouse facilities are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

interruption to transportation flows for delivery of products to us and to our customers;

changes in foreign currency exchange rates;

changes in a specific country's or region's political or economic conditions;

trade protection measures and import or export licensing requirements;

negative consequences from changes in tax laws;

difficulty in staffing and managing widespread operations;

differing labor regulations;

difficulty collecting accounts receivable;

unexpected changes in regulatory requirements; and

geopolitical turmoil, including terrorism or war.

While the impact of these factors is difficult to predict, any one or more of these factors could adversely affect our operations and financial results in the future.

A single stockholder has voting control over us.

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As of July 29, 2008, Edward J. Richardson, our Chairman, Chief Executive Officer and President, beneficially owned approximately 99% of the outstanding shares of our Class B common stock, representing approximately 67% of the voting power of the outstanding common stock. This share ownership permits Mr. Richardson to exert control over the outcome of most stockholder votes, including votes concerning the election of directors, by-law amendments, possible mergers, corporate control contests, and other significant corporate transactions.

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We are exposed to foreign currency risk.

We expect that international sales will continue to represent a significant percentage of our total sales, which exposes 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 were unable to denominate our purchases or sales in U.S. dollars or otherwise shift the risk of currency exchange rate fluctuations to our customers and suppliers.

We currently do not engage in any 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.

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

Our credit agreement contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make other payments with respect to 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. Our credit agreement contains only one financial covenant related to the ratio of senior funded debt to cash flow. In addition, the indentures for our outstanding notes contain covenants that limit, among other things, our ability to incur additional indebtedness. If we fail to comply with the obligations in our credit agreement or 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.

If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal controls over financial reporting, we may not be able to detect fraud or report our financial results accurately or timely, which could have a material adverse effect on our business.

An effective internal control environment is necessary for us to produce reliable financial reports and is an important part of our effort to prevent financial fraud. We are required to periodically evaluate the effectiveness of the design and operation of our internal controls over financial reporting. Based on these evaluations, we may conclude that enhancements, modifications or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of our internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including collusion, management override, and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate business risks.

If we fail to maintain an effective system of internal controls, or if management or our independent registered public accounting firm discovers material weaknesses in our internal controls, we may be unable to produce reliable financial reports or prevent fraud, which could have a material adverse effect on our business. In addition, we may be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASD. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline or limit our access to capital.

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Our business is dependent upon the availability of our information systems. The failure of our information systems for any extended period of time could adversely affect our business.

We rely on our information systems to process, analyze, and manage data to facilitate the purchase and distribution of our products. We also rely on our systems to receive, process, bill, and ship orders on a timely basis. If our information systems are interrupted, damaged, or fail for any extended period of time, it could have an adverse impact on our results of operations.

ITEM 1B. Unresolved Staff Comments

None.

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We own three facilities and lease 61 facilities. We own our corporate facility and largest distribution center, which is located on approximately 96 acres in LaFox, Illinois and consists of approximately 242,000 square feet of manufacturing, warehouse, and office space. We maintain geographically diverse facilities because we believe this will limit market risk and exchange rate exposure. We consider our properties to be well maintained, in sound condition and repair, and adequate for our present needs. The extent of utilization varies from property to property and from time to time during the year.

Our principal facilities, their primary use, and segments served are as follows:

Location	Leased or Owned	Use	Segment
LaFox, Illinois*	Owned	Sales/Distribution/Manufacturing	RFPD, EDG, DSG
Sao Paulo, Brazil	Leased	Sales/Distribution	RFPD, EDG
Brampton, Canada	Leased	Sales	RFPD, EDG, DSG
Shanghai, China	Leased	Sales/Distribution	RFPD, EDG
Beijing, China	Leased	Sales	RFPD, EDG
Shenzhen, China	Leased	Sales/Distribution	RFPD, EDG
Colombes, France	Leased	Sales	RFPD, EDG, DSG
Puchheim, Germany	Leased	Sales	RFPD, EDG
Donaueschingen, Germany	Leased	Sales/Distribution/Manufacturing	DSG
Ra'anana, Israel	Leased	Sales	RFPD, EDG, DSG
Florence, Italy	Owned	Sales	RFPD, EDG
Tokyo, Japan	Leased	Sales	RFPD, EDG
Seoul, Korea	Leased	Sales	RFPD, EDG
Singapore, Singapore	Leased	Sales	RFPD, EDG
Madrid, Spain	Owned	Sales	RFPD, EDG
Jarfalla, Sweden	Leased	Sales	RFPD, EDG
Taipei, Taiwan	Leased	Sales	RFPD, EDG
Lincoln, United Kingdom	Leased	Sales	RFPD, EDG, DSG
Slough, United Kingdom	Leased	Sales	RFPD, EDG, DSG
San Jose, California	Leased	Sales	RFPD
Woodland Hills, California	Leased	Sales	RFPD, EDG
Marlborough, Massachusetts	Leased	Sales/Distribution/Manufacturing	DSG
Plymouth, Minnesota	Leased	Sales/Distribution	DSG
Ronkonkoma, New York	Leased	Sales	RFPD, EDG
Cedars, Pennsylvania	Leased	Sales	RFPD
Geneva, Illinois	Leased	Distribution	RFPD, EDG, DSG

* LaFox, Illinois is also the location of our corporate headquarters.

Item 3. Legal Proceedings

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

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Sales of Unregistered Securities***

None.

Dividends

Annual dividend payments for fiscal 2008 and fiscal 2007 were approximately \$2.1 million and \$2.8 million, respectively. All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions, and such other factors that the Board may deem relevant. In each quarter during fiscal 2007 and the first two quarters of fiscal 2008, our Board of Directors paid a quarterly dividend of \$0.04 per common share and \$0.036 per Class B common share. During the third quarter of fiscal 2008, the quarterly dividend was reduced to \$0.02 per common share and \$0.018 per Class B common share.

Common Stock Information

Our common stock is traded on The NASDAQ Global Market (NASDAQ) under the trading symbol (RELL). There is no established public trading market for our Class B common stock. As of July 28, 2008, there were approximately 912 stockholders of record for the common stock and approximately 18 stockholders of record for the Class B common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of RELL common stock as reported on The NASDAQ Global Market.

Fiscal Quarters	2008		2007	
	High	Low	High	Low
First	\$ 9.90	\$ 6.82	\$ 8.68	\$ 6.58
Second	\$ 7.85	\$ 6.30	\$ 10.30	\$ 8.01
Third	\$ 7.35	\$ 3.66	\$ 10.09	\$ 8.37
Fourth	\$ 6.61	\$ 3.59	\$ 10.09	\$ 8.30

Table of Contents***Performance Graph***

The following graph compares the performance of our common stock for the periods indicated with the performance of the NASDAQ Composite Index, and NASDAQ Electronic Components Index. The graph assumes \$100 invested on May 31, 2003, in our common stock, the NASDAQ Composite Index, and NASDAQ Electronic Components Index. Total return indices reflect reinvestment of dividends at the closing stock prices at the date of the dividend declaration.

	5/31/2003	5/31/2004	5/31/2005	5/31/2006	5/31/2007	5/31/2008
RELL	\$100	\$134	\$106	\$ 86	\$122	\$ 72
NASDAQ	\$100	\$124				