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

Registration Statement No. 333-125254

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 3

to

FORM S-1

Registration Statement

Under

the Securities Act of 1933

RICHARDSON ELECTRONICS, LTD.

(Exact name of registrant as specified in its charter)

Delaware	**5065**	**36-2096643**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

40W267 Keslinger Road

P.O. Box 393

LaFox, Illinois 60147-0393

(630) 208-2200

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

David J. Gilmartin, Esq.

Vice President, General Counsel & Secretary

Richardson Electronics, Ltd.

P.O. Box 393

LaFox, Illinois 60147-0393

(630) 208-2200

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

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

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

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

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

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

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

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

SUBJECT TO COMPLETION, DATED OCTOBER 26, 2006

$44,683,000

7 3/4% Convertible Senior Subordinated Notes due 2011

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

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

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

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

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

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

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

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

The date of this Prospectus is , 2006.

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

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

When we use the terms we, us, our, or the Company in this prospectus, we mean Richardson Electronics, Ltd. and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise. When we use the term holders we mean the holders of our 7 3/4% Convertible Senior Subordinated Notes due December 15, 2011 offered for sale from time to time pursuant to this prospectus.

References in this prospectus to our common stock mean our common stock, $.05 par value per share; references to our Class B common stock mean our Class B common stock, $.05 par value per share; references to the notes mean our 7 3/4% Convertible Senior Subordinated Notes due 2011; references to the 7 1/4% debentures mean our 7 1/4% Convertible Subordinated Debentures due December 15, 2006; references to the

8¼% debentures mean our 8¼% Convertible Senior Subordinated Debentures due June 15, 2006; references to the 8% notes mean our 8% Convertible Senior Subordinated Notes due June 15, 2011, and references to the credit agreement mean our amended and restated revolving credit agreement due October 2009 and dated October 29, 2004.

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PROSPECTUS SUMMARY

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

Our Company

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

- products which we manufacture or modify;
- products which are manufactured to our specifications by independent manufacturers under our own private labels; and
- value we add through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for our customers end products. We define design-in support as modification of components or identification of lower-cost product alternatives or complementary products.

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

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

Our Strategic Business Units

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

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

Electron Device Group (formerly Industrial Power Group);

Security Systems Division/Burtek Systems; and

Display Systems Group.

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

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

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

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

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

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

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

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

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

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

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

Electron Device Group, formerly Industrial Power Group

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

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

Security Systems Division/Burtek Systems

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

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

Display Systems Group

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

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

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

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

Business Strategies

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

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

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 customers from electron tubes to newer solid-state technologies. Sales of products other than electron tubes represented approximately 84% of our sales in fiscal 2006 compared to 76% in fiscal 2000. In addition, our salespeople increased sales by selling products from all strategic business units to customers who currently may only purchase from one strategic business unit and by selling engineered solutions to customers who currently may only purchase standard components.

Growth and Profitability Strategies

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

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

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

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

- Sangus Holdings AB (RF and microwave applications now part of our RF, Wireless & Power Division) in fiscal 2002;
- Evergreen Trading Company (power conversion now part of our Electron Device Group) in fiscal 2005;
- A.C.T. Kern GmbH & Co. KG (Kern) (display technology now part of Display Systems Group) in fiscal 2006; and
- Image Systems Corporation (display technology supplier now part of Display Systems Group) in fiscal 2006.

Recent Developments

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

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The Offering

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

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

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	the notes at any time on or after December 19, 2007 at 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date.
Repurchase at Holder s Option upon Certain Events	Upon a change of control, as defined in Description of the Notes Repurchase at Option of Holder, holders may require us to repurchase their notes in cash at a price equal to 101% of the principal amount plus accrued and unpaid interest to, but excluding, the applicable repurchase date. We may elect to pay the repurchase price in cash, shares of our common stock or any combination of cash and shares of our common stock.
Ranking	The notes are unsecured senior subordinated obligations and are subordinated in right of payment to any existing and future senior indebtedness, which was $68,460,891 as of September 2, 2006, and structurally subordinated to the indebtedness and other liabilities of our subsidiaries, which was $23,513,770 as of September 2, 2006.
Trading	Currently, there is no public market for the notes, and we cannot assure you that any such market will develop. The notes will not be listed on any securities exchange or included in any automated quotation system. Our common stock is traded on The NASDAQ Global Market under the symbol RELL .
Sinking Fund	None.
Use of Proceeds	The net proceeds from the sale of the notes or the shares of common stock covered by this prospectus will be received by the selling holders. We will not receive any of the proceeds from any sale by any selling holder of the notes or the shares of common stock covered by this prospectus.
Book-Entry Form	The notes were issued in book-entry form and are represented by permanent global certificates deposited with, or on behalf of, the Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the securities are shown on, and transfers are effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See Description of the Notes Book-Entry Securities.
Risk Factors	An investment in the notes involves a high degree of risk. See Risk Factors beginning on page 11 for a discussion of certain factors that you should consider when evaluating an investment in the notes and the underlying common stock.

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Summary Selected Consolidated Financial Information

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

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

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

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

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

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Ratio of Earnings to Fixed Charges

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

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

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

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RISK FACTORS

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

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following acquisitions, the acquired companies may encounter unforeseen operating difficulties and may require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations. If we are unable to successfully identify acquisition candidates, complete acquisitions, and integrate the acquired businesses with our existing businesses, our business, results of operations, and financial condition may be materially and adversely affected, and we may not be able to compete effectively within our industry.

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

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

- changes in a specific country s or region s political or economic conditions, particularly in emerging markets, including the possibility of military action or other hostilities and confiscation of property;
- increases in trade protection measures and import or export licensing requirements;
- changes in tax laws and international tax treaties;
- restrictions on our ability to repatriate investments and earnings from foreign operations;
- difficulty in staffing and managing widespread operations;
- differing labor regulations;
- differing levels of protection of intellectual property;
- changes in regulatory requirements;
- shipping costs and delays; or
- difficulties in accounts receivable collection.

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

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

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

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

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

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

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

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

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

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, engineering efforts, and other general corporate purposes, as well as to pay dividends;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage relative to our competitors who have less debt; or
- limit, along with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds which could affect our ability to make future acquisitions, among other things.

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

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

- $44.7 million aggregate principal amount of our notes, which bear interest at a rate of 7 $^{3}/_{4}$% per year payable on June 15 and December 15 and mature on December 15, 2011;
- $25.0 million aggregate principal amount of our 8% notes, which bear interest at a rate of 8% per year payable on June 15 and December 15 and mature on June 15, 2011, subject to an additional 1% as a result of failing to register the 8% notes by March 21, 2006 (we purchased $6.0 million of the 8% notes on September 8, 2006 and have agreed to purchase an additional $8.0 million of the 8% notes in December 2006); and

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

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

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

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

- reduce or delay capital expenditures;
- sell assets or businesses;
- limit or discontinue, temporarily or permanently, business plans or operations;
- obtain additional debt or equity financing; or
- restructure or refinance debt.

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

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

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

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

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

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

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

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

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

We are exposed to foreign currency risk.

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

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

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

- ineffective Company level controls

inadequate controls associated with the accounting for income taxes

inadequate financial statement preparation and review procedures

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

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

Risks Related to Owning Our Notes

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

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

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

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

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

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

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