RICHARDSON ELECTRONICS LTD/DE
Form S-1/A
April 19, 2004

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 19, 2004

Registration Statement No. 333-113568

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1
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)

William G. Seils, Esq.
Senior 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)

Copies to:

Scott Hodes, Esq.
R. Randall Wang, Esq.
Bryan Cave LLP
161 North Clark Street, Suite 1200
Chicago, Illinois 60601
Tel: (312) 602-5000

Alexander G. Simpson, Esq.
King & Spalding LLP
1185 Avenue of Americas
New York, New York 10036
Tel: (212) 556-2100
Fax: (212) 556-2222

Fax: (312) 602-5050

Approximate date of commencement of proposed sale to the public: As soon as possible 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. o

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. o

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. o ________

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. o ________

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

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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.

SUBJECT TO COMPLETION, DATED APRIL 19, 2004

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. 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.

3,000,000 Shares of Common Stock

We are offering 3,000,000 shares of our common stock. Our common stock is listed on The Nasdaq National Market and trades under the ticker symbol "RELL." On April 12, 2004, the last reported sale price of our common stock was $12.03 per share. In addition to the class of common stock offered by this prospectus, which has one vote per share, as of April 6, 2004, we also had outstanding 3,171,320 shares of Class B common stock, substantially all of which are held by our Chief Executive Officer and Chairman of the Board, Edward J. Richardson. Our Class B common stock has ten votes per share and may vote on all matters submitted to a vote of the holders of our common stock.

Concurrently with this offering, we are offering to exchange any and all of our outstanding 7¼% Convertible Subordinated Debentures due 2006 and 8¼% Convertible Senior Subordinated Debentures due 2006 that are validly tendered and not withdrawn for an equal principal amount of our new % Convertible Senior Subordinated Notes due 2011. The exchange offer is being made by a separate prospectus and the related letter of transmittal. Neither offering is contingent upon the closing of the other offering.

Investing in our common stock involves risks.
See "Risk Factors" beginning on page 8.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Richardson Electronics, Ltd.	$	$

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

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

Jefferies & Company, Inc.

William Blair & Company

KeyBanc Capital Markets

The date of this Prospectus is , 2004.

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You should rely only on the information contained in this prospectus. We have not authorized anyone else to provide you with additional or different information. This prospectus is not an offer to sell or a solicitation of an offer to buy securities in any circumstances in which the offer or solicitation is unlawful. You should not interpret the delivery of this prospectus, or any sale of securities, as an indication that there has been no change in our affairs since the date of this prospectus. You should also be aware that information in this prospectus may change after this date.

When we use the terms "we," "us," "our," or the "Company" in this prospectus, we mean Richardson Electronics, Ltd. and its subsidiaries, on a consolidated basis, unless we state or the context implies otherwise.

References in this prospectus to our "common stock" mean our common stock, $.05 par value per share. References to the "notes" mean the new % Convertible Senior Subordinated Notes due 2011 we are offering in the concurrent exchange offer. References to the "8$^{1}/_{4}$% debentures" mean our outstanding 8$^{1}/_{4}$% Convertible Senior Subordinated Debentures due June 15, 2006; references to the "7$^{1}/_{4}$% debentures" mean our outstanding 7$^{1}/_{4}$% Convertible Subordinated Debentures due December 15, 2006; and references to our "outstanding debentures" mean the 7$^{1}/_{4}$% debentures and the 8$^{1}/_{4}$% debentures, collectively.

PROSPECTUS SUMMARY

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

Our Company

We are a global provider of engineered solutions and a distributor of electronic components to the radio frequency, or RF, and wireless communications, industrial power conversion, security, and display systems markets. We are committed to a strategy of providing specialized technical expertise and value-added products, which we refer to as "engineered solutions," in response to our customers' needs. We estimate that approximately 50% of our sales involve engineered solutions, consisting of:

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

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

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

Our Strategic Business Units

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

- RF and Wireless Communications Group;
- Industrial Power Group;
- Security Systems Division; and
- Display Systems Group.

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

RF & Wireless Communications Group

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

We expect continued growth in wireless applications as the demand for all types of wireless communication increases worldwide. We believe wireless networking and infrastructure products for a

number of niche applications will require engineered solutions using the latest RF technology and electronic components, including:

- automotive telematics, which is the use of computers and telecommunications to provide wireless voice and data applications in motor vehicles;
- RF identification, which is an electronic data collection and identification technology for a wide range of products to transfer data between a movable item and a reader to identify, track, or locate items; and
- wireless local area networks.

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

Industrial Power Group

Our Industrial Power Group provides engineered solutions for customers in the steel, automotive, textile, plastics, semiconductor manufacturing, and transportation industries. Our team of engineers designs solutions for applications such as motor speed controls, industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. We build on our expertise in power conversion technology to provide engineered solutions to fit our customers' specifications using what we believe are the most competitive components from industry-leading vendors.

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

Security Systems Division

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

The security systems industry is rapidly transitioning from analog to digital imaging technology. We are positioned to take advantage of this transition through our array of innovative products and solutions marketed under our *National Electronics*, *Capture*, *AudioTrak*, and *Elite National Electronics* brands, including advanced equipment such as digital video recorders, Internet-based amplifiers, covert cameras, speed dome cameras, and telephone-control-based closed circuit television systems. We expect to gain additional market share by marketing ourselves as a value-added service provider and partnering with our other strategic business units to develop customized solutions as the transition to digital technology continues in the security industry.

Display Systems Group

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

screens, protective panels, custom enclosures, specialized finishes, application specific software, and privately branded products.

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

Business Strategies

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

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

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

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

Leverage Our Existing Customer Base. An important part of our growth is derived from offering new products to our existing customer base. We support the migration of our Industrial Power Group customers from electron tubes to newer solid-state technologies. Sales of products other than electron tubes represented approximately 83% of our sales in fiscal 2003 compared to 71% in fiscal 1999. In addition, our salespeople increase sales by selling products from all strategic business units to customers who currently may only purchase from one strategic business unit and by selling engineered solutions to customers who currently may only purchase standard components.

Growth and Profitability Strategies

Our long-range growth plan is centered around three distinct strategies by which we are seeking to maximize our overall profitability:

Focus on Internal Growth. We believe that, in most circumstances, internal growth provides the best means of expanding our business, both on a geographic and product line basis. The recent economic downturn increased the trend to outsourcing engineering as companies focused on their own core competencies, which we believe contributed to the increased demand for our engineered solutions. As technologies change, we plan to continue to capitalize on our customers' need for design engineering. We serve approximately 120,000 customers worldwide and have developed internal systems to capture forecasted product demand by potential design opportunity. This allows us to anticipate our customers' future requirements and identify new product opportunities. In addition, we share these future requirements with our manufacturing suppliers to help them predict near and long-term demand, technology trends and product life cycles.

Expansion of our product offerings is an ongoing program. In particular, the following areas have generated significant sales increases in recent years: RF amplifiers; interconnect and passive devices; silicon controlled rectifiers; custom and medical monitors; and digital closed circuit television security systems.

Reduce Operating Costs Through Continuous Operational Improvements. We constantly strive to reduce costs in our business through initiatives designed to improve our business processes. Recently, we have embarked on a vigorous program in an effort to improve operating efficiencies and asset utilization, with an emphasis on inventory control. Our incentive programs were revised in fiscal 2004 to heighten our managers' commitment to these objectives. Our strategic business units' goals are now based on return on assets. Additional programs are ongoing, including a significant investment in enterprise resource planning software scheduled for implementation during this calendar year.

Grow Through Acquisitions. We have an established record of acquiring and integrating businesses. Since 1980, we have acquired 34 companies or significant product lines and continue to evaluate acquisition opportunities on an ongoing basis. We seek acquisitions that provide product line growth opportunities by permitting us to leverage our existing customer base, expand the geographic coverage for our existing product offerings, or add incremental engineering resources/expertise. Our most significant acquisitions over the past five years include:

- TRL Engineering (amplifier pallet design and engineering now part of our RF and Wireless Communications Group) in 1999;
- Pixelink (display systems integration now part of our Display Systems Group) in 1999;
- Adler Video (security systems now part of our Security Systems Division) in 1999;
- Celti (fiber optic communication now part of our RF and Wireless Communications Group) in 2001;
- Aviv (design-in services for active and passive components now part of our RF and Wireless Communications Group) in 2001; and
- Sangus (RF and microwave applications now part of our RF and Wireless Communications Group) in 2002.

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

The Offering

Common stock offered by us	3,000,000 shares
Over-allotment option offered by us	450,000 shares
Common stock outstanding before offering	11,019,031 shares of common stock and 3,171,320 shares of Class B common stock
Common stock outstanding after offering	14,019,031 shares of common stock and 3,171,320 shares of Class B common stock
Use of proceeds	Assuming a public offering price of $12.03 per share (the last reported sale price on April 12, 2004), we estimate that the net proceeds of this offering will be approximately $33.7 million ($38.8 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds from the sale of our common stock in this offering to repay borrowings under our credit agreement. Subsequently, in the event debentures remain outstanding after completion of the concurrent exchange offer, we intend to reborrow an amount not in excess of the net proceeds to redeem those debentures to the extent of such proceeds.
Dividend policy	We have paid quarterly dividends of $.04 per share of common stock and $.036 per share of Class B common stock since September 1988. All future payments of dividends are at the discretion of our board of directors and will depend on our earnings, capital requirements, operating conditions, and such other factors that the board of directors may deem relevant. See "Dividend Policy."
Risk factors	You should carefully consider all of the information set forth in this prospectus and, in particular, you should evaluate the specific factors set forth under "Risk Factors" in deciding whether to invest in our common stock.
Nasdaq National Market symbol	RELL

The number of shares of common stock outstanding is based on the number of shares outstanding as of February 28, 2004, which excludes:

2,527,000 shares reserved for issuance under our existing stock incentive plans, including 1,538,000 shares issuable upon exercise of options outstanding as of that date at a weighted average exercise price of $9.39 per share;

116,000 shares reserved for issuance under our employee stock purchase plan; and

3,681,000 shares reserved for issuance upon conversion of the $7^1/_4$% debentures, which have a conversion price of $21.14 per share, and the $8^1/_4$% debentures, which have a conversion price of $18.00 per share.

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

Concurrent Exchange Offer

Concurrently with this offering, we are offering to exchange any and all of our outstanding debentures that are validly tendered and not withdrawn for an equal principal amount of notes. The exchange offer is being made by a separate prospectus and the related letter of transmittal. Neither offering is contingent upon the closing of the other offering. See "Concurrent Exchange Offer."

Summary Selected Consolidated Financial Information

The following table contains summary selected consolidated financial data as of and for the fiscal years ended May 31, 2001, 2002 and 2003 and as of and for the nine months ended February 28, 2003 and 2004. The summary selected consolidated financial data as of May 31, 2002 and 2003, and for the fiscal years ended May 31, 2001, 2002 and 2003, are derived from our audited financial statements contained elsewhere in this prospectus. The summary selected consolidated financial data as of and for the nine months ended February 28, 2003 and 2004 are derived from our unaudited financial statements contained elsewhere in this prospectus and, in our opinion, reflect all adjustments, which are normal recurring adjustments, necessary for a fair presentation. Our results of operations for the nine months ended February 28, 2004 may not be indicative of the results that may be expected for the full year. The summary selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those consolidated financial statements contained elsewhere in this prospectus. Historical results are not necessarily indicative of results to be expected in the future.

	Fiscal Year Ended May 31[1]			Nine Months Ended	
	2001	2002[2]	2003[3]	February 28, 2003	February 28, 2004
	(In thousands, except per share amounts)			(Unaudited)	
Statement of Operations Data:					
Net sales	$ 502,369	$ 443,492	$ 464,517	$ 345,582	$ 374,695
Cost of products sold	370,819	349,326	365,427	261,313	283,102
Gross margin	131,550	94,166	99,090	84,269	91,593
Selling, general and administrative expenses	94,444	94,519	100,749	74,155	78,441
Other expense, net	10,716	17,445	11,484	8,147	7,934
Income (loss) before income taxes	26,390	(17,798)	(13,143)	1,967	5,218
Income tax provision (benefit)	8,656	(6,339)	(3,012)	825	1,621
Income (loss) before cumulative effect of accounting change	17,734	(11,459)	(10,131)	1,142	3,597
Cumulative effect of accounting change, net of tax[4]			17,862	17,862	
Net income (loss)	$ 17,734	$ (11,459)	$ (27,993)	$ (16,720)	$ 3,597
Income (loss) per share basic:					
Before cumulative effect of accounting change	$ 1.33	$ (.84)	$ (.73)	$ .08	$ .26
Cumulative effect of accounting change, net of taxes			(1.30)	(1.30)	
Net income (loss) per share	$ 1.33	$ (.84)	$ (2.03)	$ (1.22)	$ .26
Income (loss) per share diluted:					
Before cumulative effect of accounting change	$ 1.21	$ (.84)	$ (.73)	$ .08	$ .25
Cumulative effect of accounting change, net of taxes			(1.30)	(1.28)	
Net income (loss) per share	$ 1.21	$ (.84)	$ (2.03)	$ (1.20)	$ .25
Dividends per common share[5]	$ .16	$ .16	$ .16	$ .12	$ .12

				Nine Months Ended	
Weighted-average number of common shares outstanding:(6)					
Basic	13,333	13,617	13,809	13,742	14,002
Diluted	17,568	13,617	13,809	13,989	14,374
Other Data:					
Interest expense	$ 11,146	$ 12,386	$ 10,352	$ 7,757	$ 7,682
Investment income	575	352	124	123	127
Depreciation & amortization	5,776	5,875	5,364	4,273	4,013
Capital expenditures	7,883	5,727	6,125	4,958	3,861

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

(1) We account for our results of operations on a 52/53 week year, ending the fiscal year on the Saturday nearest May 31.

(2) In the third quarter of fiscal 2002, we recorded a $4.6 million loss ($2.9 million net of tax) related to the disposition of our medical glassware business. In the fourth quarter of fiscal 2002, we recorded a $16.1 million charge ($10.3 million net of tax) primarily related to inventory obsolescence.

(3) In the fourth quarter of fiscal 2003, we recorded a $16.1 million charge ($10.3 million, net of tax) principally related to inventory write-downs and restructuring charges, including a $1.7 million restructuring charge to selling, general and administrative expenses as we eliminated over 70 positions or approximately 6% of our workforce. In addition, we recorded incremental tax provisions of $1.6 million to establish a valuation allowance related to our deferred tax assets outside the United States.

(4) In the second quarter of fiscal 2003, we adopted SFAS 142, "Goodwill and Other Intangible Assets" and as a result recorded a cumulative effect adjustment of $17.9 million net of tax of $3.7 million to write off impaired goodwill. Additionally, effective at the beginning of fiscal 2003, we no longer amortized goodwill. Income (loss) before taxes included goodwill amortization of $298 in 1999, $368 in 2000, $612 in 2001, and $577 in 2002.

(5) The dividend per class B common share was 90% of the dividend per common share.

(6) The weighted-average number of common shares outstanding includes 3,220, 3,207 and 3,207 class B common shares for the fiscal years ended May 31, 2001, 2002, and 2003, respectively, and 3,207 and 3,189 class B common shares for the nine months ended February 28, 2003 and 2004, respectively.

RISK FACTORS

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

Risks Related to the Concurrent Exchange Offer

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

It is likely that we will not be able to generate sufficient cash to repay the outstanding debentures at maturity. As of February 28, 2004, we had $30,825,000 aggregate principal amount of our 7 1/4% debentures outstanding and $40,000,000 aggregate principal amount of our 8 1/4% debentures outstanding. Our debt to total capital ratio was 61.4% as of February 28, 2004. The working capital requirements of our business result in substantial fluctuations in our cash balances during fiscal quarters. We are unlikely to be able to redeem or repay the outstanding debentures at maturity without depleting our cash balance to a level that would be insufficient to support our business. While we believe we will strengthen our financial position, improve our capital structure, and reduce our cash expenditures by conducting the concurrent exchange offer, we may not be successful. If the exchange offer is unsuccessful and we are unable to repay the outstanding debentures at maturity, our default in payment of the outstanding debentures would trigger an event of default under the related indentures, which would trigger a cross-default under the separate indenture governing the notes as well as our credit agreement and could trigger acceleration of the related debt. In addition, the lenders under our credit agreement could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under our credit agreement or the indentures governing the outstanding debentures or the notes could adversely affect our growth, our financial condition, our results of operations and our ability to make payments on our debt obligations.

Currently, we do not have any alternative financing plans for payment of the outstanding debentures other than the concurrent exchange offer. If the concurrent exchange offer is unsuccessful and the proceeds from this offering are insufficient to redeem all of the outstanding debentures, we will evaluate alternative plans for payment of the outstanding debentures at that time, taking into account the then existing market conditions.

Risks Related to Our Business

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

We reported net losses of approximately $11.5 million in fiscal 2002 and $28.0 million in fiscal 2003 and we cannot assure you that we will not experience operating losses and net losses in the future. We may continue to lose money if our sales do not continue to increase. We cannot predict the extent to which sales will continue to increase across our businesses or how quickly our customers will consume their inventories of our products.

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

We maintain significant inventories in an effort to ensure that customers have a reliable source of supply. The market for many of our products is characterized by rapid change as a result of the development of new technologies, particularly in the semiconductor markets served by our RF & Wireless Communications Group, evolving industry standards, and frequent new product introductions by some of our customers. We do not have many long term supply contracts with our customers. Generally, our product sales are made on a purchase-order basis, which permits our customers to

reduce or discontinue their purchases. If we fail to anticipate the changing needs of our customers and accurately forecast their requirements, our customers may not continue to place orders with us and we may accumulate significant inventories of products which we will be unable to sell or return to our vendors, or which may decline in value substantially.

In fiscal 2002, we recorded a pre-tax provision for inventory obsolescence and overstock of $15.3 million, or $9.8 million net of tax, due to an industrywide decline in sales, a prolonged recovery period, and changes in our mix of business toward higher technology products, particularly in the telecommunications market. In fiscal 2003, we recorded an additional pre-tax provision of $13.8 million, or $8.8 million net of tax, primarily for inventory obsolescence, overstock, and shrinkage, to write down inventory to net realizable value as we sought to align our inventory and cost structure to then current sales levels amid continued economic slowdown and limited visibility. We cannot assure you that we will not incur similar charges in the future.

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

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

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

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

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

As of February 28, 2004, our total long-term debt was approximately $127 million, including our outstanding debentures. We have incurred and will likely continue to incur indebtedness to fund potential future acquisitions, for strategic initiatives and for general corporate purposes. Although we believe that the cash flow generated by our continuing operations is sufficient to meet our repayment

obligations over the next 12 months, we cannot assure you that this will be the case. Our incurrence of additional indebtedness could have important consequences to you. For example, it could:

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

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

As of February 28, 2004, our total debt was approximately $132 million, resulting in a debt to total capital ratio of 61.4%, and primarily consisted of:

- $30,825,000 aggregate principal amount of our 7 1/4% debentures, which bear interest at a rate of 7 1/4% per year payable on June 15 and December 15 and mature on December 15, 2006;
- $40,000,000 aggregate principal amount of our 8 1/4% debentures, which bear interest at a rate of 8 1/4% per year payable on June 15 and December 15 and mature on June 15, 2006; and
- $60,434,687 principal amount of indebtedness under our credit agreement, which matures on September 30, 2005, bears interest at London Interbank Offered Rate, or LIBOR, plus a margin varying with certain financial performance criteria. The interest rate was 4.09% at February 28, 2004.

We plan to issue an aggregate principal amount of notes equal to the principal amount of outstanding debentures tendered and accepted in the exchange offer. The notes will bear interest at the rate of % per year, with interest payable on and , and mature on , 2011.

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

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

- reduce or delay capital expenditures;

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

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

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

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

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

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The loss of the services of any of our executive officers, particularly Mr. Richardson, our chairman of the board and chief executive officer, and Bruce W. Johnson, our president and chief operating officer, could significantly harm our business and results of operations. In addition, we would be in default under our credit agreement if the level of Mr. Richardson's voting power is less than 51% and therefore is not sufficient for him to elect a majority of our board of directors and control any amendment to our by-laws. In addition, the lenders under our credit agreement could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors.

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

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

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

Potential changes in accounting standards regarding stock option plans could limit the desirability of granting stock options, which could harm our ability to attract and retain employees, and could also negatively impact our results of operations.

The Financial Accounting Standards Board is considering whether to require all companies to treat the fair value of stock options granted to employees as an expense. The United States Congress and other governmental and regulatory authorities have also considered requiring companies to expense stock options. If this change were to become mandatory, we and other companies could be required to record a compensation expense equal to the fair value of each stock option granted. Currently, we are generally not required to record compensation expense in connection with stock option grants. If we were required to expense the fair value of stock option grants, it would reduce the attractiveness of granting stock options because of the additional expense associated with these grants, which would negatively impact our results of operations. For example, had we been required to expense stock option grants by applying the measurement provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," our recorded net income of $3.6 million would have been decreased by $612,000, to net income of $3.0 million for the nine months ended February 28, 2004 and our recorded net loss of $28.0 million would have been increased by $1.6 million, to a net loss of $29.6 million for fiscal 2003. Nevertheless, stock options are an important employee recruitment and retention tool, and we may not be able to attract and retain key personnel if we reduce the scope of our employee stock option program. Accordingly, in the event we are required to expense stock option grants, our future results of operations would be negatively impacted, as would our ability to use stock options as an employee recruitment and retention tool.

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

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

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

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

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

One of our growth strategies is to increase our sales and expand our markets through acquisitions. Since 1980, we have acquired 34 companies or significant product lines and we expect to continue making acquisitions if appropriate opportunities arise in our industry. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms or otherwise complete future acquisitions. Furthermore, we may compete for acquisition and expansion opportunities with companies that have substantially greater resources than us.

Following acquisitions, our acquired companies may encounter unforeseen operating difficulties and may require significant financial and managerial resources that would otherwise be available for

the ongoing development or expansion of our existing operations. If we are unable to successfully identify acquisition candidates, complete acquisitions, and integrate the acquired businesses with our existing businesses, our business, results of operations and financial condition may be materially and adversely affected and we may not be able to compete effectively within our industry.

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

The success of our business depends, in part, on our continuous reduction of costs. The electronic component industries have historically experienced price erosion and will likely continue to experience such price erosion. If we are not able to reduce our costs sufficiently to offset future price erosion, our operating results will be adversely affected. We have recently engaged in various cost-cutting and other initiatives intended to reduce costs and increase productivity. In fiscal 2003, we recorded a $1.7 million restructuring charge as we eliminated over 70 positions or approximately 6% of our workforce. We cannot assure you that we will be able to continue to reduce our costs.

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

Electron tubes and certain other products supplied by our Industrial Power Group are currently produced by a relatively small number of manufacturers. Our future success will depend, in large part, on maintaining current vendor relationships and developing new relationships. We believe that vendors supplying products to some of the product lines of our Industrial Power Group are consolidating their distribution relationships or exiting the business. The three largest suppliers to the Industrial Power Group by percentage of overall Industrial Power Group purchases in fiscal 2003 were Communications & Power Industries, Inc., Covimag S.A., and Powerex Inc. These suppliers accounted for approximately 55% of the overall Industrial Power Group purchases in fiscal 2003. The loss of one or more of our key vendors and the failure to find new vendors could significantly harm our business and results of operations. We have in the past and may in the future experience difficulties obtaining certain products in a timely manner. The inability of suppliers to provide us with the required quantity or quality of products could significantly harm our business.

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

In fiscal 2003, approximately 56.9% of our sales and 28.4% of our purchases of products were made internationally. We anticipate that we will continue to expand our international operations to the extent that suitable opportunities become available. Accordingly, our future results of operations could be harmed by a variety of factors which are not present for companies with operations and sales solely within the United States, including:

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

- shipping costs and delays; or
- difficulties in accounts receivable collection.

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

We are exposed to foreign currency risk.

We expect that international sales will continue to represent a significant percentage of our total sales, which expose us to currency exchange rate fluctuations. Since the revenues and expenses of our foreign operations are generally denominated in local currencies, exchange rate fluctuations between local currencies and the U.S. dollar subject us to currency exchange risks with respect to the results of our foreign operations to the extent we are unable to denominate our purchases or sales in U.S. dollars or otherwise shift to our customers or suppliers the risk of