RICHARDSON ELECTRONICS LTD/DE
Form 10-K
August 16, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 2, 2007

OR

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

For the transition period from to

Commission File Number: 0-12906

RICHARDSON ELECTRONICS, LTD.

(Exact name of registrant as specified in its charter)

Delaware	**36-2096643**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

LaFox, Illinois 60147-0393

(Address of principal executive offices)

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

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

Title of each class	Name of each exchange of which registered
Common stock, $0.05 Par Value	**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of December 2, 2006, was approximately $136,600,000.

As of August 14, 2007, there were outstanding 14,805,234 shares of Common Stock, $.05 par value, inclusive of 1,122,232 shares held in treasury, and 3,048,258 shares of Class B Common Stock, $.05 par value, which are convertible into Common Stock of the registrant on a one-for-one basis.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the Annual Meeting of Stockholders scheduled to be held October 9, 2007, which will be filed pursuant to Regulation 14A, are incorporated by reference in Part III of this report. Except as specifically incorporated herein by reference, the above mentioned Proxy Statement is not deemed filed as part of this report.

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PART I

Item 1. Business

Forward Looking Statements

All statements other than statements of historical facts included in this report are statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. The words may, will, should, could, expect, plan, intend, estimate, anticipate, predict, believe, potential, continue, and similar expressions and variations thereof are intended to identify forward-looking statements. Such statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, its directors, or its officers with respect to, among other things: (i) trends affecting the Company s financial condition or results of operations; (ii) the Company s financing plans; (iii) the Company s business and growth strategies, including potential acquisitions; and (iv) other plans and objectives for future operations. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those predicted in the forward-looking statements or which may be anticipated from historical results or trends.

The Company

Richardson Electronics, Ltd. (the Company) was originally incorporated in Illinois in 1947 and is currently incorporated in Delaware. The Company is a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, and display systems markets with total sales in fiscal 2007 of $557.3 million. The Company is committed to a strategy of providing specialized technical expertise and value-added products, which the Company refers to as engineered solutions, in response to customers needs. These engineered solutions consist of:

- products which the Company manufactures or modifies;
- products which are manufactured to the Company s specifications by independent manufacturers under the Company s private labels; and
- value the Company adds through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of the Company s customers. The Company defines design-in support as modification of components or identification of lower-cost product alternatives or complementary products.

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

The Company s broad array of technical services and products supports both the Company s customers and vendors.

Strategic Business Units

The Company serves its customers through three strategic business units, each of which is focused on different end markets with distinct product and application needs. The Company s three strategic business units are:

- RF, Wireless & Power Division;
- Electron Device Group; and

Display Systems Group.

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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, Asia/Pacific, Europe, and Latin America.

On May 31, 2007, the Company completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) strategic business unit to Honeywell International Inc. for $80 million. After transaction expenses paid through June 2, 2007, net cash proceeds from the sale were $78.1 million. The transaction resulted in an after tax gain of $41.6 million after additional transactions costs of $2.5 million were accrued as of June 2, 2007. The Company has used the net proceeds received and will continue to use the net proceeds classified as restricted cash from the sale to pay down debt outstanding under its multi-currency revolving credit agreement (credit agreement). The Company presents SSD/Burtek as a discontinued operation in accordance with the criteria of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and prior period results and disclosures have been restated to reflect this reporting.

In an effort to reduce the Company s global operating costs related to logistics, selling, general, and administrative expenses and to better align its operating and tax structure on a global basis, the Company implemented a global restructuring plan during fiscal 2007 (2007 Restructuring Plan). The 2007 Restructuring Plan decreased the number of warehouses and streamlined much of the entire organization which is expected to reduce future corporate and administrative expense. During fiscal 2007, the Company centralized inventory distribution in Europe, restructured its Latin American operations, and reduced its total workforce, including the elimination and restructuring of layers of management.

The total restructuring and severance costs to implement the plan were approximately $6.0 million, a majority of which were $2.7 million of severance costs recorded in the fourth quarter of fiscal 2006 and $2.2 million of severance costs recorded in fiscal 2007.

Selected financial data attributable to each strategic business unit and geographic data for fiscal 2007, 2006, and 2005 is set forth in Note M of the notes to the consolidated financial statements and is incorporated by reference herein.

RF, Wireless & Power Division

The Company s RF, Wireless & Power Division (RFPD) serves the global RF and wireless communications market, including infrastructure and wireless networks and the power conversion markets. RFPD s 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 team offers its customers and vendors a broad range of engineering and technical support including the design-in of RF, wireless and power components and the development of engineered solutions for their support system requirements. RFPD s team of power conversion engineers designs solutions for applications such as motor speed controls, industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. The team builds on its expertise in power conversion technology to provide engineered solutions to its customers specifications using what the Company believes are the most competitive components from industry-leading vendors.

The Company expects continued growth in wireless applications as the demand for many types of wireless communication increases worldwide. In addition to voice communication, the Company believes the rising demand for high-speed data transmission will result in major investments in both system upgrades and new systems to handle broader bandwidth. The Company believes wireless and power conversion products for niche applications which will require engineered solutions using the latest RF technology and electronic components include:

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

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

Power Conversion High power applications such as power suppliers, welding, motor controls, and converting AC/DC and DC/AC. RFPD s growth is supported by its collaboration with leading manufacturers. A key factor in the Company s ability to maintain a strong relationship with its vendors and to attract new vendors is its ability to supply them with worldwide demand forecasts for their existing products as well as products they have in development. The Company has developed internal systems to capture forecasted product demand by potential design opportunity based on ongoing dialogue between its sales team and its customers. The Company shares this information with its suppliers to help them predict near and long-term demand and product life cycles.

The Company has global distribution agreements with such leading suppliers as ANADIGICS, Advanced Power Technologies, Aavid, Anaren, ATC, Cornell-Dubilier, Freescale, HUBER+SUHNER, International Rectifier, M/A-COM, Peregrine, Vishay, Wakefield, and WJ Communications. In addition, the Company has relationships with many niche RF, wireless, and power suppliers to allow it to serve as a comprehensive RF, wireless, and power resource.

The Company participates in most RF, wireless, and power applications and markets in the world, focusing on infrastructure applications rather than consumer-driven subscriber applications.

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

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

RF & Microwave Passive Devices components used to connect all types of electronic equipment including those employing RF technology.

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

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

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

Electron Device Group

The Company s Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries. EDG s team of engineers designs solutions for applications such as industrial heating, laser technology, semiconductor manufacturing equipment, radar, and welding. The group builds on its expertise in high power, high frequency vacuum devices to provide engineered solutions to fit its customers specifications using what the Company believes are the most competitive components from industry-leading vendors.

EDG serves the industrial market s need for both vacuum tube and semiconductor manufacturing equipment technologies. The Company provides replacement products for systems using electron tubes as well as design and assembly services for new systems employing semiconductor manufacturing equipment. The Company s customers demand for higher power and shorter processing times increases the need

for tube-based systems.

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EDG represents leading manufacturers of electronic tubes and semiconductor manufacturing equipment used in industrial power applications. Among the suppliers EDG supports are Amperex, CPI, Eimac, General Electric, Jennings, Litton, Hitachi, NJRC, Thales, L3, National, and Draloric.

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

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

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

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

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

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

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

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

Display Systems Group

The Display Systems Group (DSG) is a global provider of integrated display products and systems to the public information, financial, point-of-sale, industrial, and healthcare markets. The group works with leading hardware vendors to offer the highest quality liquid crystal display, plasma, cathode ray tube, and customized computing platforms. The group s 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 has been transitioning from film-based technology to digital technology. DSG s medical imaging hardware partnership program allows it to deliver integrated hardware and software solutions for this growing market by combining the Company s hardware expertise in medical imaging engineered solutions with its software partners expertise in picture archiving and communications systems. Through such collaborative arrangements, the Company is able to provide integrated imaging workstation systems to the end user and resellers, as well as other medically approved display solutions for various other modalities in the hospital.

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The Company s legacy business of supplying replacement cathode ray tubes continues to be an important market. The Company believes it is successful in supplying replacement cathode ray tubes because of its extensive cross-reference capability. This database, coupled with custom mounting hardware installed by the Company, enables it to provide replacement tubes for more than 200,000 models.

DSG has long-standing relationships with key manufacturers including 3M, AUO, CMO, HP, IBM, Intel, LG, NEC Displays, Philips Displays, Planar Systems, Sharp Electronics, Samsung, and Siemens Displays. The Company believes these relationships and its private label brands allow it to maintain a well-balanced and technologically advanced line of products.

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

Cathode Ray Tubes vacuum tubes that convert an electrical signal into a visual image to display information on data display monitors. Cathode ray tubes are used in various environments, including hospitals, financial institutions, airports, and numerous other applications wherever large user groups share electronic data visually. This product line includes both monochrome and color tubes.

Custom LCD Displays flat panel display monitors incorporating a liquid crystal as an alternative to the traditional cathode ray tube technology, typically a few inches in depth and ranging from 10 to 52 measured diagonally. These displays are usually integrated with touchscreen technology or special mounting configurations based on the customer s requirements.

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

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

Discontinued Operations Security Systems Division/Burtek Systems

Discontinued operations includes the results of the Security Systems Division/Burtek Systems (SSD/Burtek), which the Company sold to Honeywell International Inc. on May 31, 2007. SSD/Burtek was a global provider of closed circuit television, fire, burglary, access control, sound, and communication products and accessories for the residential, commercial, and government markets. The unit specialized in closed circuit television design-in support, offering extensive expertise with applications requiring digital technology. The products SSD/Burtek provided were primarily used for security and access control purposes but are also utilized in industrial applications, mobile video, and traffic management.

Business Strategies

The Company is pursuing a number of strategies designed to enhance its business and, in particular, to increase sales of engineered solutions. The Company s strategies are to:

Capitalize on Engineering and Manufacturing Expertise. The Company believes that its success is largely attributable to its core engineering and manufacturing competency and skill in identifying cost-competitive solutions for its customers, and the Company believes that these factors will be significant to its future success. Historically, the Company s primary business was the distribution and manufacture of electron tubes and the Company continues to be a major supplier of these products. This business enabled the Company to develop manufacturing and design engineering capabilities. Today, the Company uses 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. The Company works closely with its customers engineering

departments that allow it to identify engineered solutions for a broad range of applications. The Company believes its customers use its engineering and manufacturing expertise as well as its in-depth knowledge of the components best suited to deliver a solution that meets their performance needs cost-effectively.

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

Focus on Growth Markets. A majority of the Company s sales are in markets it believes have high growth potential and can benefit from its engineering and manufacturing expertise and from its strong vendor relationships. These markets are characterized by substantial end-market growth and rapid technological change. For RFPD, the continuing demand for wireless communications is driving wireless application growth, and power conversion demand continues to grow due to increasing system complexity and the need for intelligent, efficient power management.

Leverage the Existing Customer Base. An important part of the Company s growth is derived from offering new products to its existing customer base. The Company supports the migration of its customers from electron tubes to newer solid-state technologies. In addition, the Company s salespeople are able to sell products from all strategic business units to customers who currently may only purchase from one strategic business unit and sell engineered solutions to customers who currently may only purchase standard components.

Growth and Profitability Strategies

Although the Company has reported net losses from continuing operations of approximately $12.4 million in fiscal 2003, $18.8 million in fiscal 2005, and $4.0 million in fiscal 2006, its long-range growth plan centers around three distinct strategies by which it seeks to maximize its overall profitability:

Focus on Internal Growth. The Company believes that, in most circumstances, internal growth provides the best means of expanding its business, both on a geographic and product line basis. The Company believes there is increased outsourcing of engineering as companies focus on their own core competencies, which the Company believes contributed to the increased demand for its engineered solutions. As technologies change, the Company plans to continue to capitalize on its customers need for design engineering. In fiscal 2007, the Company made sales to approximately 25,000 customers. The Company has developed internal systems to capture forecasted product demand by potential design opportunity. This allows the Company to anticipate the customers future requirements and identify new product opportunities. In addition, the Company shares these future requirements with its manufacturing suppliers to help them predict near and long-term demand, technology trends, and product life cycles. Expansion of the Company s 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; and custom and medical monitors.

Reduce Operating Costs Through Continuous Operational Improvements. The Company constantly strives to reduce costs in its business through initiatives designed to improve its business processes. The Company continues to embark on programs to improve operating efficiencies and asset utilization, with an emphasis on inventory control and cash generation. The Company revised its incentive programs in fiscal 2004 and fiscal 2007 to heighten its managers commitment to these objectives. In an effort to reduce the Company s global operating costs related to logistics, selling, general, and administrative expenses and to better align its operating and tax structure on a global basis, the Company implemented a global restructuring plan during fiscal 2007

(2007 Restructuring Plan). The 2007 Restructuring Plan decreased the number of warehouses and streamlined much of the entire organization, which is expected to reduce future corporate and administrative expense. During fiscal 2007, the Company centralized inventory distribution in Europe, restructured its Latin American operations, and reduced its total workforce, including the elimination and restructuring of layers of management. Additional programs are ongoing, including the centralization of inventory distribution in Asia/Pacific and continuing the Company s investment in enterprise resource planning software during fiscal 2008.

Products and Suppliers

The Company purchases numerous products from various suppliers as noted above under Strategic Business Units. During fiscal 2007, the Company added the following suppliers: Avago, Muegge, and Thales.

The Company evaluates its customers needs and attempts to maintain sufficient inventories in an effort to ensure its customers a reliable source of supply. While the Company stocks inventory that turns more or less than three months, the Company anticipates holding 90 days of inventory in the normal course of operations. This level of inventory is higher than some of its competitors due to the fact that the Company sells a number of products representing older, or trailing edge, technology that may not be available from other sources. The market for these trailing edge technology products is declining and as manufacturers for these products exit the business, the Company, at times, purchases a substantial portion of their remaining inventory. Also contributing to the Company s higher inventory levels is its commitment to maintaining an inventory of a broad range of products to be able to promptly service those customers who are buying product for replacement of components in equipment critical to preventing downtime of their operations. In other segments of the business, such as RFPD, the market for the Company s products is characterized by rapid change and obsolescence as a result of the development of new technologies, particularly in the semiconductor markets it serves.

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

The Company s suppliers generally warrant the products the Company distributes and allow return of defective products, including those returned to the Company by its customers. Except with respect to certain displays, the Company generally does not provide additional warranties on the products it sells. For information regarding the warranty reserves, see Note A of the notes to the consolidated financial statements.

In addition to third party products, the Company sells proprietary products principally under certain trade names it owns including: A.C.T Kern , *Amperex*®, *Cetron*®, Image Systems *, National*®, Pixelink , and RF Gain . The Company s proprietary products which it manufactures or has manufactured for it, include RF amplifiers, transmitters and pallet assemblies, thyratrons and rectifiers, power tubes, ignitrons, CW magnetron tubes, phototubes, spark gap tubes, microwave generators, custom RF matching networks, heatsinks, silicon controlled rectifier assemblies, large screen display monitors, liquid crystal display monitors, and computer workstations. The materials used in the manufacturing process consist of glass bulbs and tubing, nickel, stainless steel and other metals, plastic and metal bases, ceramics, and a wide variety of fabricated metal components. These materials generally are readily available, but some components may require long lead times for production and some materials are subject to shortages or price fluctuations based on supply and demand.

Sales and Marketing

As of the end of fiscal 2007, the Company employed approximately 549 sales personnel worldwide. In addition, there were approximately 99 authorized representatives, who are not the Company s employees, selling its products, primarily in regions where the Company does not have a direct sales presence. Many of the

Company s sales representatives focus on just one of its strategic business units, while others focus on all of its strategic business units within a particular geographic area. The Company s sales representatives are compensated in part on a salaried basis and in part on a commission basis.

The Company offers various credit terms to qualifying customers as well as prepayment, credit card, and cash on delivery terms. The Company establishes credit limits prior to selling product to its customers and routinely reviews delinquent and aging accounts. The Company establishes reserves for estimated credit losses in the normal course of business.

Distribution

The Company maintains more than 830,000 part numbers in its product inventory database and estimates more than 80% of orders received by 6:00 p.m. local time are shipped complete the same day. Customers can access the Company s product inventory through electronic data interchange, either at the Company s web site, *www.rell.com,* through its catalog, *www.catalog.rell.com*, or by telephone. Customer orders are processed by the regional sales offices and supported by one of the Company s principal distribution facilities in LaFox, Illinois; Amsterdam, Netherlands; or Singapore, Republic of Singapore and/or its additional stocking locations throughout the world. The Company utilizes a sophisticated data processing network that provides on-line, real-time interconnection of all sales offices and central distribution operations, 24 hours per day, seven days per week. Information on stock availability, cross-reference information, customers, and market analyses are instantly obtainable throughout the entire distribution network.

International Sales

In fiscal 2007, 52.0% of the Company s sales and 51.9% of the Company s purchases of products were made outside the U.S. The Company believes that it may continue to expand its international operations to the extent that suitable opportunities become available. Accordingly, its future results could be adversely affected by a variety of factors which are not present for companies with operations and sales solely within the United States, including: changes in currency exchange rates; 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 the Company s ability to repatriate investments and earnings from foreign operations; difficulty in staffing and managing widespread operations; differing labor regulations; differing protection of intellectual property; changes in regulatory requirements; shipping costs and delays; and difficulties in accounts receivable collection. Such risks could result in substantial increases in costs, the reduction of profit, the inability to do business, and other adverse effects.

Backlog

The Company s backlog of orders was approximately $140.5 million and $120.1 million as of June 2, 2007 and June 3, 2006, respectively. The Company expects to fill all backlog orders within fiscal 2008.

Employees

As of June 2, 2007, the Company employed 991 individuals on a full-time basis. Of these, 549 were employed in the United States and 442 were employed internationally. The worldwide employee base included 549 in sales and product management, 76 in distribution support, 291 in administrative positions, and 75 in value-added and product manufacturing. All of the Company s employees are non-union. The Company considers its relationships with its employees to be good.

Competition

The Company believes that engineering capability, exclusive vendor relationships, and product diversity create segmentation among its competitors. The Company believes that the key competitive factors in its markets

include the ability to provide engineered solutions, reliable delivery at competitive prices, provide marketing technical support, and maintain inventory availability and quality. The Company believes that, on a global basis, it is a significant provider of engineered solutions and products which utilize RF and power semiconductors and subassemblies, electron tubes, cathode ray tubes, and custom and medical monitors. In many instances, the Company s competition is its customer base and their decision to make or buy, as well as the original equipment manufacturer for sales of replacement parts and system upgrades to service existing installed equipment. In addition, the Company competes worldwide with other general line distributors and other distributors of electronic components.

Patents and Trademarks

The Company holds or licenses certain manufacturing patents and trademark rights. Although the Company s patents and trademarks have some value, they are not significant to the Company s success, which depends principally upon its ability to provide engineered solutions, reliable delivery at competitive prices, provide marketing technical support, and maintain inventory availability and quality.

Seasonal Variations

The Company experiences moderate seasonality in its business and typically realizes higher sequential sales in its second and fourth fiscal quarters, reflecting increased transaction volume after the summer and holiday months in its first and third fiscal quarter periods.

Website Access to SEC Reports

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

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Item 1A. Risk Factors

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

The Company has had significant operating and net losses from continuing operations in the past and may have future losses.

The Company reported net losses from continuing operations of approximately $12.4 million in fiscal 2003, $18.8 million in fiscal 2005, and $4.0 million in fiscal 2006. There is no assurance that the Company will not experience operating losses and net losses from continuing operations in the future. The Company may continue to lose money if its sales do not continue to increase or its expenses are not reduced. The Company cannot predict the extent to which sales will continue to increase across its businesses or how quickly its customers will consume their inventories of the Company s products.

The Company has exposure to economic downturns and operates in cyclical markets.

As a supplier of electronic components and services to a variety of industries, the Company can be adversely affected by general economic downturns. In particular, demand for the products and services of RFPD is dependent upon capital spending levels in the telecommunications industry and demand for products and services of EDG 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 its customers delay capital projects during economic downturns. Accordingly, the Company s operating results for any particular period are not necessarily indicative of the operating results for any future period. The markets served by its businesses have historically experienced downturns in demand that could harm its 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 the Company derives a significant portion of its revenue by distributing products designed and manufactured by third parties, it may be unable to anticipate changes in the marketplace and, as a result, could lose market share.

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

The Company faces intense competition in the markets it serves and, if it does not compete effectively, it could significantly harm its operating results.

The Company faces substantial competition in its markets, in the form of 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 its competitors have significantly

greater resources and broader name recognition than it. As a result, these competitors may be better able to withstand changing conditions within its markets and throughout the economy as a whole. In addition, new competitors could enter its markets.

Engineering capability, exclusive vendor relationships, and product diversity create segmentation among distributors. The Company s ability to compete successfully will depend on its ability to provide engineered solutions, reliable delivery at competitive prices, provide marketing technical support, and maintain inventory availability and quality.

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

If the Company does not continue to reduce its costs, it may not be able to compete effectively in its markets.

The success of the Company s business depends, in part, on its continuous reduction of costs. The electronic component industries have historically experienced price erosion and will likely continue to experience such price erosion. If the Company is not able to reduce its costs sufficiently to offset future price erosion, its operating results may be adversely affected. The Company has recently engaged in various cost-cutting and other initiatives intended to reduce costs and increase productivity. In fiscal 2005, the Company recorded a $2.2 million restructuring charge as it eliminated over 60 positions or approximately 5% of its workforce.

In an effort to reduce the Company s global operating costs related to logistics, selling, general, and administrative expenses and to better align its operating and tax structure on a global basis, the Company implemented a global restructuring plan during fiscal 2007 (2007 Restructuring Plan). The 2007 Restructuring Plan decreased the number of warehouses and streamlined much of the entire organization which is expected to reduce future corporate and administrative expense. During fiscal 2007, the Company centralized inventory distribution in Europe, restructured its Latin American operations, and reduced its total workforce, including the elimination and restructuring of layers of management.

The total restructuring and severance costs to implement the plan were approximately $6.0 million, a majority of which were $2.7 million of severance costs recorded in the fourth quarter of fiscal 2006 and $2.2 million of severance costs recorded in fiscal 2007.

The Company cannot ensure that it will not incur further charges for restructuring as it continues to seek cost reduction initiatives. Alternatively, the Company cannot ensure that it will be able to continue to reduce its costs.

Because the Company generally does not have long-term contracts with its vendors, it may experience shortages of products that could harm its business and customer relationships.

The Company generally does not have long-term contracts or arrangements with any of its vendors that guarantee product availability. The Company cannot ensure that its vendors will meet its future requirements for timely delivery of products of sufficient quality or quantity. Any difficulties in the delivery of products could harm its relationships with customers and cause it to lose orders that could result in a significant decrease in its revenues. Further, the Company competes against certain of its vendors and its relationship with those vendors could be harmed as a result of this competition.

The Company s EDG is dependent on a limited number of vendors to supply it with essential products.

Electron tubes and certain other products supplied by EDG are currently produced by a relatively small number of manufacturers. The Company s future success will depend, in large part, on maintaining current

vendor relationships and developing new relationships. The Company believes that vendors supplying products to some of the product lines of EDG are consolidating their distribution relationships or exiting the business. The five largest suppliers to EDG by percentage of overall EDG purchases in fiscal 2007 were Communications & Power Industries, Inc., New Japan Radio Co. Ltd., Covimag S.A., Thales Components Corp, and, Hitachi High Technologies America. These suppliers accounted for approximately 61% of the overall EDG purchases in fiscal 2007. The loss of one or more of the Company s key vendors and the failure to find new vendors could significantly harm its business and results of operations. The Company has in the past and may in the future experience difficulties obtaining certain products in a timely manner. The inability of suppliers to provide it with the required quantity or quality of products could significantly harm its business.

The Company maintains a significant investment in inventory and has incurred significant charges for inventory obsolescence and overstock, and may incur similar charges in the future.

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

In fiscal 2003, the Company recorded a 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 it sought to align its inventory and cost structure to then current sales levels amid continued economic slowdown and limited visibility. While the Company did not incur any material provisions for inventory in fiscal 2007 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. The Company cannot ensure that similar charges will not be incurred in the future.

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

In fiscal 2007, 52.0% of the Company s sales were made outside the U.S. and 51.9% of the Company s purchases of products were from suppliers located outside the U.S. The Company anticipates that it will continue to expand its international operations to the extent that suitable opportunities become available. Accordingly, the Company s future results of operations could be impacted 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 its 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;

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changes in regulatory requirements;

shipping costs and delays; or

difficulties in accounts receivable collection.

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

The Company s success depends on its executive officers and other key personnel.

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

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

The Company s ability to service its debt and meet its other obligations depends on a number of factors beyond its control.

At June 2, 2007, the Company s total debt was approximately $121.4 million, resulting in a debt-to-equity ratio of 89%, and primarily consisted of:

$11.0 million aggregate principal amount of its 8% convertible senior subordinated notes (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;

$44.7 million aggregate principal amount of its 7 3/4% convertible senior subordinated notes (7 3/4% 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; and

$65.7 million principal amount of indebtedness under the Company s multi-currency revolving credit agreement (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 7.72% at June 2, 2007. The credit agreement balance of $65.7 million is classified as current as of June 2, 2007, due to the obligation to pay off the credit agreement with the proceeds from the SSD/Burtek sale. All borrowings under the credit agreement, $65.7 million as of June 2, 2007, are anticipated to be repaid by the end of the first quarter of fiscal 2008.

The debt-to-equity ratio has been calculated based on the Company s balance sheet dated June 2, 2007.

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

If the Company s cash flow and capital resources are insufficient to enable it to service its debt and meet these obligations as they become due, the Company could be forced to:

reduce or delay capital expenditures;

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- 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.

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

The Company s credit agreement and the indentures for its outstanding notes impose restrictions with respect to various business matters.

The Company entered into a new credit agreement (new credit agreement) on July 27, 2007 which contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the Company s ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make other payments in respect of its 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 new credit agreement contains only one financial covenant related to the ratio of senior funded debt to cash flow. In addition, the indentures for its outstanding notes contain covenants that limit, among other things, its ability to incur additional indebtedness. If the Company fails to comply with the obligations in the new 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 its business and financial condition.

The Company was not in compliance with certain financial covenants of the Company s credit agreement in the past, and may not be able to comply with these financial covenants in the future.

In the past the Company has had recurring instances where it failed to meet certain financial covenants of the Company s credit agreement. The new credit agreement entered into on July 27, 2007 contains only one financial covenant related to the ratio of senior funded debt to cash flow. However, in the event that the Company fails to meet this financial covenant in the future, the Company may not be able to obtain the necessary waivers or amendments to remain in compliance with the new credit agreement and the Company s lenders may declare a default and cause all of the Company s outstanding indebtedness under the new credit agreement to become immediately due and payable. If the Company is unable to repay any borrowings when due, the lenders under the new credit agreement could proceed against their collateral, which includes most of the assets the Company owns. In addition, any default under the Company s new 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 the Company s new credit agreement and the Company s other debt instruments is accelerated, the Company may not have sufficient assets to repay amounts due under the Company s new credit agreement or indebtedness under the Company s other debt instruments.

The Company is exposed to foreign currency risk.

The Company expects that international sales will continue to represent a significant percentage of its total sales, which expose it to currency exchange rate fluctuations. Since the revenues and expenses of the Company s foreign operations are generally denominated in local currencies, exchange rate fluctuations between local currencies and the U.S. dollar subject the Company to currency exchange risks with respect to the results of its foreign operations to the extent it were unable to denominate its purchases or sales in U.S. dollars or otherwise shift to its customers or suppliers the risk of currency exchange rate fluctuations. The Company currently does

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not engage in any significant currency hedging transactions. Fluctuations in exchange rates may affect the results of its international operations reported in U.S. dollars and the value of such operations net assets reported in U.S. dollars. Additionally, its competitive position may be affected by the relative strength of the currencies in countries where its products are sold. The Company cannot predict whether foreign currency exchange risks inherent in doing business in foreign countries will have a material adverse effect on its operations and financial results in the future.

If the Company does not maintain effective internal controls over financial reporting, it could be unable to provide timely and reliable financial information.

As disclosed in the Company s Management s Report on Internal Control over Financial Reporting in Part II, Item 9A, Controls and Procedures of this Form 10-K, during fiscal 2006, the Company reported one material weakness 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. During 2006, the Company did not effectively perform an evaluation of the reasonableness of assumptions with respect to the realizability of certain deferred tax assets.

During fiscal 2007, the Company successfully remediated this material weakness by implementing the appropriate procedures to evaluate the realizability of all deferred tax assets. 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 the Company s stock price or business.

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Item 2. Properties

The Company owns six facilities and leases 62 facilities. The Company owns its corporate facility and largest distribution center, which is located on approximately 96 acres in LaFox, Illinois and consists of approximately 242,000 square feet of manufacturing, warehouse, and office space. The Company maintains geographically diverse facilities because it believes this will limit market risk and exchange rate exposure. The Company considers its properties to be generally well maintained, in sound condition and repair, and adequate for its present needs. The extent of utilization varies from property to property and from time to time during the year.

The principal facilities of the Company and the primary use and segments at those locations are as follows:

Location	Leased or Owned	Use	Segment
Brampton, Canada	Leased	Sales/Distribution	RFPD, EDG
Shanghai, China	Leased	Sales	RFPD, EDG, DSG
Beijing, China	Leased	Sales	RFPD, EDG, DSG
Shenzhen, China	Leased	Sales	RFPD, EDG, DSG
Colombes, France	Leased	Sales	RFPD, EDG, DSG
Puchheim, Germany	Leased	Sales	RFPD, EDG, DSG
Donaueschingen, Germany	Leased	Sales	DSG
Raanana, Israel	Leased	Sales	RFPD, EDG, DSG
Florence, Italy	Owned	Sales	RFPD, EDG, DSG
Tokyo, Japan	Leased	Sales/Distribution	RFPD, EDG, DSG
Seoul, Korea	Leased	Sales	RFPD, EDG, DSG
Singapore, Singapore	Leased	Sales/Distribution	RFPD, EDG
Madrid, Spain	Owned	Sales	RFPD, EDG, DSG
Jarfalla, Sweden	Leased	Sales	RFPD, EDG, DSG
Taipei, Taiwan	Leased	Sales/Distribution	RFPD, EDG
San Jose, California	Leased	Sales	RFPD
Plymouth, Minnesota	Leased	Distribution	DSG
Geneva, Illinois	Leased	Distribution	RFPD, EDG, DSG
LaFox, Illinois*	Owned	Sales/Distribution	RFPD, EDG, DSG
Hudson, Massachusetts	Leased	Sales/Distribution	DSG
Cedars, Pennsylvania	Leased	Sales	RFPD, EDG

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

Item 3. Legal Proceedings

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

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Recent Sales of Unregistered Securities

On November 21, 2005, the Company sold $25.0 million in aggregate principal amount of 8% convertible senior subordinated notes due 2011 (8% notes) pursuant to an indenture with the Law Debenture Trust Company of New York dated November 21, 2005. The 8% notes bear interest at a rate of 8% per annum and are convertible at any time into shares of common stock at a conversion price of $10.31, subject to adjustment upon certain events. The Company has agreed to file a registration statement for the resale of the 8% notes and the shares of common stock issuable upon conversion of the 8% notes. The 8% notes were issued through a private placement with qualified institutional buyers under Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. The Company used the net proceeds from the sale of the 8% notes to repay amounts outstanding under its multi-currency revolving credit agreement (credit agreement). The Company redeemed all of the outstanding 8 1/4% convertible senior subordinated debentures (8 1/4% debentures) on December 23, 2005 in the amount of $17.5 million and redeemed all of the outstanding 7 1/4% convertible subordinated debentures (7 1/4% debentures) on December 30, 2005 in the amount of $4.8 million by borrowing amounts under the Company s credit agreement to effect these redemptions. The Company previously reported this issuance of 8% notes in a Current Report on Form 8-K filed on November 22, 2005.

Dividends

Annual dividend payments for fiscal 2007 amounted to $2.8 million. All future payments of dividends are at the discretion of the board of directors and will depend on earnings, capital requirements, operating conditions, and such other factors that the board of directors may deem relevant. In each of the last 20 years, the Company has paid a quarterly dividend of $0.04 per common share and $0.036 per Class B common share. The Company currently expects to continue paying dividends at this historical rate in fiscal 2008.

Market Price of Common Stock

The Company s common stock is traded on The NASDAQ Global Market (NASDAQ) under the trading symbol RELL. There is no established public trading market for the Company s Class B common stock. As of August 14, 2007, there were approximately 886 stockholders of record for the common stock and approximately 18 stockholders of record for the Class B common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of RELL common stock as reported on The NASDAQ Global Market.

	2007		2006	
Fiscal Quarters	**High**	**Low**	**High**	**Low**
First	$ 8.68	$ 6.58	$ 9.38	$ 6.55
Second	$ 10.30	$ 8.01	$ 8.50	$ 6.78
Third	$ 10.09	$ 8.37	$ 9.05	$ 6.89
Fourth	$ 10.09	$ 8.30	$ 9.40	$ 6.24

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Performance Graph

The following graph compares the performance of the Company s common stock for the periods indicated with the performance of the NASDAQ Composite Index, and NASDAQ Electronic Components Index. The graph assumes $100 invested on May 31, 2002 in the Company, the NASDAQ Composite Index, and NASDAQ Electronic Components Index. Total return indices reflect reinvestment of dividends at the closing stock prices at the date of the dividend declaration.

	5/31/2002	5/31/2003	5/31/2004	5/31/2005	5/31/2006	5/31/2007
RELL	$100	$ 78	$105	$83	$ 68	$ 95
NASDAQ	100	92	86	62	107	164
Elec Comp.	100	113	97	35	79	112

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Item 6. Selected Financial Data

Five-Year Financial Review

This information should be read in conjunction with the Company s consolidated financial statements, accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	Fiscal Year Ended[1] (in thousands, except per share amounts)				
	2007[2]	2006[3]	2005[4]	2004[5]	2003[6]
Statement of Operations Data					
Net sales	**$ 557,291**	$ 529,097	$ 473,143	$ 417,844	$ 372,291
Cost of sales	**424,888**	400,607	364,038	317,167	295,767
Gross profit	**132,403**	128,490	109,105	100,677	76,524
Selling, general, and administrative expenses	**128,175**	120,233	112,011	92,424	86,392
(Gain) loss on disposal of assets[7][8]	**(3,616)**	(154)	(9,918)	320	
Other expenses, net[9]	**5,662**	6,885	4,725	7,007	6,659
Income (loss) from continuing operations before income taxes	**2,182**	1,526	2,287	926	(16,527)
Income tax (benefit) provision	**634**	5,536	21,067	503	(4,142)
Income (loss) from continuing operations	**1,548**	(4,010)	(18,780)	423	(12,385)
Income from discontinued operations, net of tax[10]	**39,131**	1,368	2,763	5,109	3,503
Income (loss) before cumulative effect of accounting change	**40,679**	(2,642)	(16,017)	5,532	(8,882)
Cumulative effect of accounting change, net of tax[11]					(17,862)
Net income (loss)	**$ 40,679**	$ (2,642)	$ (16,017)	$ 5,532	$ (26,744)
Net income (loss) per common share basic:					
Income (loss) from continuing operations	**$ 0.09**	$ (0.23)	$ (1.13)	$ 0.03	$ (0.92)
Income from discontinued operations, net of tax	**2.27**	0.08	0.17	0.37	0.26
Cumulative effect of accounting change, net of tax					(1.32)
Net income (loss) per common share basic	**$ 2.36**	$ (0.15)	$ (0.96)	$ 0.40	$ (1.98)
Net income (loss) per Class B common share basic:					
Income (loss) from continuing operations	**$ 0.08**	$ (0.21)	$ (1.02)	$ 0.03	$ (0.83)
Income from discontinued operations, net of tax	**2.04**	0.07	0.15	0.33	0.24
Cumulative effect of accounting change, net of tax					(1.19)
Net income (loss) per Class B common share basic	**$ 2.12**	$ (0.14)	$ (0.87)	$ 0.36	$ (1.78)
Net income (loss) per common share diluted:					
Income (loss) from continuing operations	**$ 0.09**	$ (0.23)	$ (1.13)	$ 0.03	$ (0.92)
Income from discontinued operations, net of tax	**2.21**	0.08	0.17	0.35	0.26
Cumulative effect of accounting change, net of tax					(1.32)
Net income (loss) per common share diluted	**$ 2.30**	$ (0.15)	$ (0.96)	$ 0.38	$ (1.98)
Net income (loss) per Class B common share diluted:					
Income (loss) from continuing operations	**$ 0.08**	$ (0.21)	$ (1.02)	$ 0.03	$ (0.83)

Income from discontinued operations, net of tax	**2.03**	0.07	0.15	0.33	0.24
Cumulative effect of accounting change, net of tax					(1.19)
Net income (loss) per Class B common share diluted	**$ 2.11**	$ (0.14)	$ (0.87)	$ 0.36	$ (1.78)
Dividends per common share	**$ 0.160**	$ 0.160	$ 0.160	$ 0.160	$ 0.160
Dividends per Class B common share[12]	**$ 0.144**	$ 0.144	$ 0.144	$ 0.144	$ 0.144
Weighted-average number of common shares outstanding:[13]					
Common stock basic	**14,517**	14,315	13,822	10,872	10,602
Class B common stock basic	**3,048**	3,093	3,120	3,168	3,207
Common stock diluted	**17,667**	14,315	13,822	14,418	10,602
Class B common stock diluted	**3,048**	3,093	3,120	3,168	3,207
Other Data:					
Interest expense	**$ 5,292**	$ 6,281	$ 6,133	$ 7,058	$ 7,346
Investment income	**992**	411	388	227	124
Depreciation and amortization[14]	**6,126**	6,240	5,298	4,989	5,137
Capital expenditures[15]	**6,401**	6,211	6,975	5,468	4,975

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	Fiscal Year Ended[1] (in thousands, except per share amounts)				
	2007[2]	2006[3]	2005[4]	2004[5]	2003[6]
Net Sales by Strategic Business Unit:					
RF, Wireless & Power Division (RFPD)	**$ 369,936**	$ 334,131	$ 296,334	$ 256,270	$ 222,599
Electron Device Group (EDG)	**101,191**	94,443	92,174	87,856	77,336
Display Systems Group (DSG)	**82,111**	95,010	78,078	66,452	64,191
Corporate[16]	**4,053**	5,513	6,557	7,266	8,165
Consolidated	**$ 557,291**	$ 529,097	$ 473,143	$ 417,844	$ 372,291
Balance Sheet Data:					
Cash, cash equivalents, and restricted cash	**$ 79,335**	$ 17,010	$ 24,301	$ 16,572	$ 16,611
Working capital	**147,412**	158,231	153,840	172,593	178,525
Property, plant and equipment, net	**29,703**	30,070	30,677	29,670	29,827
Total assets	**349,071**	309,299	283,940	281,035	267,293
Current maturities of long-term debt	**65,711**	14,016	22,305	4,027	46
Long-term debt	**55,683**	110,500	92,481	126,209	129,253
Stockholders equity	**136,545**	98,240	97,396	86,181	77,606

(1) Fiscal Year The Company s fiscal year ends on the Saturday nearest the end of May. Each of the fiscal years presented contains 52/53 weeks. All references herein for the years 2007, 2006, 2005, 2004, and 2003 represent the fiscal years ended June 2, 2007, June 3, 2006, May 28, 2005, May 29, 2004, and May 31, 2003, respectively.

(2) During fiscal 2007, the Company recorded $2.9 million of severance expense and other costs associated with the 2007 Restructuring Plan.

(3) During the fourth quarter of fiscal 2006, the Company recorded employee severance costs of $2.7 million for certain employees whose termination became probable and estimable. In addition, during the fourth quarter of fiscal 2006, the Company re-evaluated the realization of certain deferred tax assets, resulting in an additional valuation allowance of $2.2 million.

(4) In the third quarter of fiscal 2005, the Company recorded a $2.2 million restructuring charge as the Company terminated over 60 employees. In addition, the Company recorded incremental tax provisions of $16.7 million in fiscal 2005 to increase the valuation allowance related to its deferred tax assets in the United States ($15.9 million) and outside the United States ($0.8 million).

(5) The Company recorded incremental tax provisions of $2.5 million in fiscal 2004 to increase the valuation allowance related to its deferred tax assets outside the United States.

(6) In the fourth quarter of fiscal 2003, the Company 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 as the Company eliminated over 70 positions or approximately 6% of its workforce. In addition, the Company recorded incremental tax provisions of $1.6 million to establish a valuation allowance related to its deferred tax assets outside the United States.

(7) During the third quarter of fiscal 2007, the Company completed the sale of approximately 1.5 acres of real estate and a building located in Geneva, Illinois, resulting in a gain of $2.5 million before taxes. In addition, during the fourth quarter of fiscal 2007, the Company sold real estate and a building located in the United Kingdom, resulting in a gain of $1.5 million before taxes.

(8) In the fourth quarter of fiscal 2005, the Company completed the sale of approximately 205 acres of undeveloped real estate adjoining its headquarters in LaFox, Illinois, resulting in a gain of $9.9 million before taxes.

(9) During the first quarter of fiscal 2007, the Company recorded retirement of long-term debt expenses of $2.5 million in other expenses, net as the Company entered into two separate exchange agreements in August 2006 with certain holders of the Company s 8% convertible senior subordinated notes (8% notes) to purchase $14.0 million of the 8% notes.

(10) During the fourth quarter of fiscal 2007, the Company completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) strategic business unit to Honeywell International Inc. for $80 million. After transaction expenses paid through June 2, 2007, net cash proceeds from the sale were $78.1 million. The transaction resulted in an after tax gain of $41.6 million after additional transactions costs of $2.5 million were accrued as of June 2, 2007. Loss from discontinued operations for fiscal 2007 was $2.4 million, net of tax.

(11) In the second quarter of fiscal 2003, the Company adopted Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets and as a result recorded a cumulative effect of accounting change of $17.9 million ($3.7 million, net of tax) to write off impaired goodwill. Additionally, effective at the beginning of fiscal 2003, the Company no longer amortizes goodwill.

(12) The dividend per Class B common share was 90% of the dividend per common share.

(13) The weighted-average number of common shares outstanding includes 3,048, 3,093, 3,120, 3,168, and 3,207 Class B common shares for the fiscal years ended June 2, 2007, June 3, 2006, May 28, 2005, May 29, 2004, and May 31, 2003, respectively.

(14) Includes depreciation and amortization expense related to discontinued operations (SSD/Burtek) of $0.5 million, $0.3 million, $0.2 million, $0.3 million, and $0.3 million in fiscal 2007, 2006, 2005, 2004, and 2003, respectively.

(15) Includes capital expenditures related to discontinued operations (SSD/Burtek) of $0.2 million, $1.6 million, $0.4 million, $0.4 million, and $0.2 million in fiscal 2007, 2006, 2005, 2004, and 2003, respectively.

(16) Includes freight billed to customers, other non-specific net sales, and customer cash discounts.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

The Company is a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, and display systems markets. Utilizing its core engineering and manufacturing capabilities, the Company is committed to a strategy of providing specialized technical expertise and value-added products, or engineered solutions, in response to customers needs. These solutions include products which the Company manufactures or modifies and products which are manufactured to its specifications by independent manufacturers under the Company s own private labels. Additionally, the Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of its customers. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

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

On May 31, 2007, the Company completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) strategic business unit to Honeywell International Inc. for $80 million. After transaction expenses paid through June 2, 2007, net cash proceeds from the sale were $78.1 million. The transaction resulted in an after tax gain of $41.6 million after additional transaction costs of $2.5 million were accrued as of June 2, 2007. The Company has used the net proceeds received and will continue to use the net proceeds classified as restricted cash from the sale to pay down debt outstanding under its multi-currency revolving credit agreement (credit agreement). The Company presents SSD/Burtek as a discontinued operation in accordance with the criteria of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and prior period results and disclosures have been restated to reflect this reporting.

In an effort to reduce the Company s global operating costs related to logistics, selling, general, and administrative expenses and to better align its operating and tax structure on a global basis, the Company implemented a global restructuring plan during fiscal 2007 (2007 Restructuring Plan). The 2007 Restructuring Plan decreased the number of warehouses and streamlined much of the entire organization which is expected to reduce future corporate and administrative expense. During fiscal 2007, the Company centralized inventory distribution in Europe, restructured its Latin American operations, and reduced its total workforce, including the elimination and restructuring of layers of management.

The total restructuring and severance costs to implement the plan were approximately $6.0 million, a majority of which were $2.7 million of severance costs recorded in the fourth quarter of fiscal 2006 and $2.2 million of severance costs recorded in fiscal 2007.

The Company s marketing, sales, product management, and purchasing functions are organized as three strategic business units (SBUs): RF, Wireless & Power Division (RFPD), Electron Device Group (EDG), and Display Systems Group (DSG), with operations in the major economic regions of the world: North America, Asia/Pacific, Europe, and Latin America.

Results of Operations

Net Sales and Gross Profit Analysis

In fiscal 2007, consolidated net sales increased 5.3% to $557.3 million due mainly to higher sales of wireless, power, and electron device products partially offset by a decline in display systems. Fiscal 2007 contained 52 weeks as compared to 53 weeks in fiscal 2006. Consolidated net sales in fiscal 2006 increased 11.8% to $529.1 million as all three SBUs increased net sales over the prior year with strong demand for custom display and wireless products. In addition, effective June 1, 2005, the Company acquired A.C.T. Kern GmbH & Co. KG (Kern), a leading display technology company in Europe. Net sales for Kern, included in DSG and the European region, for fiscal 2006 were $14.1 million. Net sales by SBU and percent change year-over-year are presented in the following table (in thousands):

			Fiscal Year Ended		
	June 2, 2007	June 3, 2006	May 28, 2005	FY07 vs FY06 % Change	FY06 vs FY05 % Change
Net Sales					
RFPD	$ 369,936	$ 334,131	$ 296,334	10.7%	12.8%
EDG	101,191	94,443	92,174	7.1%	2.5%
DSG	82,111	95,010	78,078	(13.6%)	21.7%
Corporate	4,053	5,513	6,557	(26.5%)	(15.9%)
Total	$ 557,291	$ 529,097	$ 473,143	5.3%	11.8%

Gross profit reflects the distribution and manufacturing product margin less manufacturing variances, inventory overstock charges, customer returns, scrap and cycle count adjustments, engineering costs, and other provisions. Gross profit on freight and miscellaneous costs are included under the caption Corporate . Gross profit by SBU and percent of SBU sales are presented in the following table (in thousands):

			Fiscal Year Ended			
	June 2, 2007		June 3, 2006		May 28, 2005	
Gross Profit						
RFPD	$ 84,338	22.8%	$ 75,834	22.7%	$ 64,853	21.9%
EDG	32,942	32.6%	30,438	32.2%	29,401	31.9%
DSG	19,145	23.3%	24,509	25.8%	17,865	22.9%
Subtotal	136,425	24.7%	130,781	25.0%	112,119	24.0%
Corporate	(4,022)		(2,291)		(3,014)	
Total	$ 132,403	23.8%	$ 128,490	24.3%	$ 109,105	23.1%

Net sales and gross profit trends are analyzed for each strategic business unit in the following sections.

RF, Wireless & Power Division

RFPD net sales increased 10.7% in fiscal 2007 to $369.9 million as compared with $334.1 million in fiscal 2006. The net sales growth for fiscal 2007 primarily related to an increase in sales of power conversion, infrastructure, and passive/interconnect product lines, partially offset by lower sales of broadcast products. Power conversion sales increased 32.2% to $49.9 million in fiscal 2007 from $37.8 million in fiscal 2006. The increase in net sales of power conversion during fiscal 2007 was mainly due to growth in Asia/Pacific which benefited from RFPD s penetration of the welding and steel manufacturing market with induction heating and power supply applications. Net sales of infrastructure products increased 30.2% in fiscal 2007 to $104.9 million from $80.5 million last fiscal year, as all four geographic regions improved over the prior year. During fiscal 2007, net sales of passive/interconnect products increased 6.2% to $59.0 million from $55.6 million last year, due to

increased demand in Europe and Asia/Pacific. The increased sales volume was the main contributor to the 11.2% increase in gross profit to $84.3 million for fiscal 2007 as compared to $75.8 million last fiscal year. Gross margin remained relatively flat at 22.8% during fiscal 2007 as compared with 22.7% during fiscal 2006.

RFPD net sales increased 12.8% in fiscal 2006 to $334.1 million as compared with $296.3 million in fiscal 2005. The RFPD net sales growth for fiscal 2006 was mainly due to an increase in sales of the network access and infrastructure product lines. Network access products sales grew 16.9% to $123.2 million in fiscal 2006 from $105.3 million in fiscal 2005, primarily due to sales growth in Asia/Pacific. Sales of infrastructure products increased to $80.5 million, 10.7% higher than $72.7 million in fiscal 2005 due to sales growth in the U.S. and Europe. The net sales growth was the main contributor to the gross profit increase of 16.9% to $75.8 million for fiscal 2006. RFPD s gross margin increased to 22.7% in fiscal 2006 from 21.9% in fiscal 2005, primarily due to inventory write-downs of $1.3 million recorded in the third quarter of fiscal 2005, and a shift in product mix in fiscal 2006 as a result of higher sales of engineered solutions. The gross margin improvement was partially offset by the increase in Asia/Pacific sales that reduced the overall gross margin due to lower gross margins in Asia/Pacific than other geographic regions.

Electron Device Group

EDG net sales increased 7.1% during fiscal 2007 to $101.2 million from $94.4 million during fiscal 2006. The net sales growth for fiscal 2007 was due to increased demand for semiconductor fabrication and tube products. Net sales to the semiconductor fabrication industry increased 30.0% during fiscal 2007 to $22.3 million from $17.2 million in fiscal 2006. The increase in net sales to the semiconductor fabrication equipment industry was due mainly to higher sales in North America, Asia/Pacific, and Europe. EDG has targeted semiconductor equipment manufacturers as an important market segment by selling semiconductor fabrication equipment products for high frequency and high power applications. This market focus lends itself to EDG s engineered solutions strategy of adding value to the component distribution sales by incorporating these products into subassemblies and assisting customers in product design. During fiscal 2007, tube sales increased to $69.6 million, a 1.9% increase from $68.3 million in fiscal 2006. Gross profit increased 8.2% during fiscal 2007 to $32.9 million from $30.4 million, due mainly to increased sales volume. Gross margin increased during fiscal 2007 to 32.6% from 32.2% last year. The increase in gross margin was due to improved margins on semiconductor fabrication equipment products.

EDG net sales increased 2.5% during fiscal 2006 to $94.4 million from $92.2 million during fiscal 2005. Semiconductor fabrication sales increased 22.5% during fiscal 2006 to $17.2 million as compared to $14.0 million in fiscal 2005 with growth mainly in the U.S. Gross profit for EDG increased 3.5% to $30.4 million during fiscal 2006 due to an improved product mix. Gross margin increased to 32.2% from 31.9% for fiscal 2006 and 2005, respectively, due to a slightly improved product mix primarily as a result of the increase in semiconductor fabrication equipment sales.

Display Systems Group

DSG net sales decreased 13.6% to $82.1 million during fiscal 2007 as compared with $95.0 million in fiscal 2006. The decrease in net sales for DSG was mainly the result of lower demand for medical monitors and custom displays. Net sales of medical monitors declined 37.3% to $21.7 million during fiscal 2007 from $34.6 million last fiscal year. Net sales of custom displays decreased to $40.2 million during fiscal 2007, a 12.8% decline from $46.1 million in fiscal 2006. DSG has a project-based business and approximately 22% of the net sales decline for custom displays in fiscal 2007 is due to the completion of a large project with the New York Stock Exchange during the first quarter of fiscal 2006. The remaining decrease is due to a decline in project business. Gross margin declined to 23.3% during fiscal 2007 from 25.8% during fiscal 2006 due to shifts in product mix. In addition, during the second quarter of fiscal 2006, the Company recorded a reduction in warranty expense of $0.9 million due to favorable warranty experience.

DSG net sales increased 21.7% during fiscal 2006 to $95.0 million as compared with $78.1 million in fiscal 2005. Net sales for Kern in fiscal 2006 were $14.1 million. The sales growth for fiscal 2006 was mainly due to the Kern acquisition and an increase in sales of the custom display product line which increased 3.0% to $46.1 million as compared to $44.7 million for fiscal 2005. DSG gross profit increased 37.2% to $24.5 million during fiscal 2006 from $17.9 million for fiscal 2005 due mainly to the higher sales volume. Gross margin increased to 25.8% from 22.9% during fiscal 2006 and 2005, respectively. The gross margin improvement was due mainly to an improved product mix primarily from sales growth in the medical monitor product lines. In addition, during the second quarter of fiscal 2006, the Company recorded a reduction in warranty expense of $0.9 million due to favorable warranty experience.

Sales by Geographic Area

The Company currently has 19 facilities in North America, 25 in Asia/Pacific, 20 in Europe, and 4 in Latin America. On a geographic basis, the Company primarily categorizes its sales by destination: North America, Europe, Asia/Pacific, Latin America, and Corporate. Net sales by geographic area and percent change year-over-year are presented in the following table (in thousands):

		Fiscal Year Ended			
	June 2, 2007	June 3, 2006	May 28, 2005	FY07 vs FY06 % Change	FY06 vs FY05 % Change
Net Sales					
North America	$ 229,296	$ 227,926	$ 217,275	0.6%	4.9%
Asia/Pacific	165,230	147,993	124,763	11.6%	18.6%
Europe	143,823	129,212	109,626	11.3%	17.9%
Latin America	16,979	18,601	16,476	(8.7%)	12.9%
Corporate	1,963	5,365	5,003	(63.4%)	7.2%
Total	$ 557,291	$ 529,097	$ 473,143	5.3%	11.8%

Gross profit by geographic area and percent of geographic sales are presented in the following table (in thousands):

	Fiscal Year Ended					
	June 2, 2007		June 3, 2006		May 28, 2005	
Gross Profit						
North America	$ 61,849	27.0%	$ 59,059	25.9%	$ 56,517	26.0%
Asia/Pacific	39,052	23.6%	35,532	24.0%	29,683	23.8%
Europe	36,481	25.4%	35,161	27.2%	30,116	27.5%
Latin America	4,845	28.5%	5,411	29.1%	4,746	28.8%
Subtotal	142,227	25.6%	135,163	25.8%	121,062	25.9%
Corporate	(9,824)		(6,673)		(11,957)	
Total	$ 132,403	23.8%	$ 128,490	24.3%	$ 109,105	23.1%

Net sales in North America increased slightly during fiscal 2007 to $229.3 million from $227.9 million last year. The increase in net sales during fiscal 2007 was mainly the result of increased sales of wireless, power conversion, and electron device products, partially offset by a decrease in display systems products. Gross margin increased to 27.0% during fiscal 2007 from 25.9% due to shifts in sales mix to higher margin electron device products.

Net sales in North America increased 4.9% in fiscal 2006 to $227.9 million as compared with $217.3 million in fiscal 2005 with all three SBUs contributing to the growth. A majority of the sales increase in fiscal

2006 was due to increases in demand for wireless products in the U.S. In addition, net sales in Canada experienced an overall gain of 8.8% to $19.5 million in fiscal 2006 versus $17.9 million in fiscal 2005. Gross margin remained relatively flat at 25.9% in fiscal 2006 as compared to 26.0% in fiscal 2005.

The Company experienced its ninth consecutive year of double-digit growth in Asia/Pacific as net sales increased 11.6% to $165.2 million in fiscal 2007 from $148.0 million in fiscal 2006. The increase during fiscal 2007 was primarily the result of strong demand for wireless infrastructure, power conversion, and passive/interconnect products, partially offset by a decline in demand for broadcast and network access products. Net sales in China increased 36.3% to $59.0 million during fiscal 2007. The net sales improvement in China was mainly the result of increased sales of infrastructure products resulting from production integration of the Company s designs in China s 3G system market. Net sales in China also increased due to continued strong demand for power conversion products in industrial uninterruptible power supply applications. During fiscal 2007, net sales in Japan increased 23.5% to $26.1 million due primarily to increased demand for power conversion, infrastructure, and network access products. Gross margin in Asia/Pacific decreased to 23.6% during fiscal 2007 from 24.0% due to an increase in sales mix of lower margin wireless infrastructure and power conversion products.

Net sales in Asia/Pacific increased 18.6% to $148.0 million in fiscal 2006 led by continued strong demand for wireless products in the cellular infrastructure, semiconductor fabrication, and broadcasting markets. Net sales in Korea increased 35.4% to $43.5 million mainly due to higher demand for network access products. Growth in broadcast product sales improved sales in Singapore by 29.3% to $23.5 million. In addition, the Company experienced an increase in network access and power components sales in China contributing to a 7.2% improvement to $43.3 million. Gross margins increased in all strategic business units in Asia/Pacific for fiscal 2006, as compared with fiscal 2005 due mainly to shifts in product mix focused on exclusive franchises, design registration programs, and the reduction of lower margin programs.

Net sales in Europe increased 11.3% in fiscal 2007 to $143.8 million from $129.2 million in the previous fiscal year. The increase in net sales was mainly due to increased demand for network access, power conversion, wireless, and electron device products. Net sales in Germany increased 23.3% during fiscal 2007 to $41.4 million, due mainly to increased demand for power conversion, wireless infrastructure, passive/interconnect, network access, and industrial tubes. During fiscal 2007, net sales for the United Kingdom increased 16.5% to $20.5 million. The net sales increase in the United Kingdom was primarily due to increased demand for display system and wireless infrastructure products. In addition, net sales in France increased 15.9% to $19.6 million during fiscal 2007 as a result of strong demand for infrastructure, passive/interconnect, and tube products. Gross margin in Europe decreased during fiscal 2007 to 25.4% from 27.2% last fiscal year. The decrease primarily related to shifts in product mix to lower margin wireless products.

Net sales in Europe grew 17.9% in fiscal 2006 to $129.2 million from $109.6 million in fiscal 2005 due to the incremental display systems products sales from the Kern acquisition and growth in wireless demand mainly in Israel, Spain, and Germany. This increase was partially offset by lower sales of electron device products. Gross margin in Europe in fiscal 2006 decreased to 27.2% from 27.5% in fiscal 2006 and 2005, respectively, primarily due to lower gross margins on wireless products as compared to electron device products.

Net sales in Latin America decreased 8.7% to $17.0 million in fiscal 2007 from $18.6 million in the previous fiscal year. The decline during fiscal 2007 was mainly due to a decline in demand for wireless, electron device, and display systems products. Gross margin decreased during fiscal 2007 to 28.5% as compared with 29.1% during fiscal 2006. The decrease in gross margin was primarily due to shifts in product mix and a more competitive wireless marketplace.

Net sales in Latin America improved 12.9% to $18.6 million in fiscal 2006 as compared with $16.5 million in fiscal 2005. The net sales growth was mainly driven by refocusing the EDG sales team after the realignment. Gross margin in Latin America increased to 29.1% in fiscal 2006 versus 28.8% in fiscal 2005 primarily due to higher gross margins from electron device products.

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Selling, General, and Administrative Expenses

Selling, general, and administrative (SG&A) expenses increased 6.6% to $128.2 million in fiscal 2007 as compared with $120.2 million last fiscal year. The increase in SG&A expenses for fiscal 2007 was primarily due to higher payroll-related, advertising, and travel expenses to support sales growth, higher healthcare expenses, an increase in distribution and logistics expenses related to the centralization of the Company s distribution centers, additional stock compensation expense of $0.8 million related to the adoption of SFAS No. 123 (Revised 2004), *Share-Based Payment,* (SFAS No. 123(R)), and restatement related expenses of $0.6 million. During fiscal 2007, severance expense and other costs related to the 2007 Restructuring Plan were $2.9 million. Total SG&A as a percentage of sales increased to 23.0% of net sales for fiscal 2007 as compared with 22.7% last fiscal year.

SG&A expenses increased 7.3% to $120.2 million in fiscal 2006 as compared with $112.0 million in fiscal 2005. The increase in SG&A expenses was primarily due to the acquisition of Kern and severance expense. The Company recorded severance expense of $4.0 million during fiscal 2006. During the third quarter of fiscal 2005, the Company recorded a restructuring charge, including severance and lease termination costs, of $2.2 million. Total SG&A expenses in fiscal 2006 decreased to 22.7% of net sales compared with 23.7% in fiscal 2005.

(Gain) Loss on Disposal of Assets

On April 5, 2007, the Company sold real estate and a building located in the United Kingdom for $1.9 million. The Company recorded a pre tax gain on sale of $1.5 million during the fourth quarter of fiscal 2007 with respect to the sale of this property.

On December 29, 2006, the Company sold approximately 1.5 acres of real estate and a building located in Geneva, Illinois for $3.1 million. The Company recorded a gain of $2.5 million during the third quarter of fiscal 2007 with respect to the sale of this property.

On May 26, 2005, the Company completed the sale of approximately 205 acres of undeveloped real estate adjoining its headquarters in LaFox, Illinois. The Company recorded a gain of $9.9 million during the fourth quarter of fiscal 2005 with respect to the sale of this property.

Other (Income) and Expense

In accordance with Emerging Issues Task Force (EITF) 87-24, *Allocation of Interest to Discontinued Operations* (EITF 87-24), the Company has allocated interest expense to the discontinued operation (SSD/Burtek) due to the requirement under the Company s existing credit agreement to pay the proceeds from the sale of a business to the parties in the credit agreement. All borrowings under the credit agreement, $65.7 million as of June 2, 2007, are anticipated to be repaid by the end of the first quarter of fiscal 2008. As such, interest expense related to the credit agreement of $5.9 million, $3.5 million, and $2.8 million for fiscal 2007, 2006, and 2005, respectively, has been included in income (loss) from discontinued operations.

In fiscal 2007, other (income) expense decreased to an expense of $5.7 million from an expense of $6.9 million last fiscal year. The decrease in other (income) expense relates to a decrease in interest expense and favorable foreign exchange rate changes, partially offset by costs associated with the retirement of long-term debt. Interest expense decreased to $5.3 million during fiscal 2007 from $6.3 million in fiscal 2006. The decrease in interest expense relates to the Company s purchase of $14.0 million of the Company s 8% convertible senior subordinated notes (8% notes) during fiscal 2007. During fiscal 2007, other (income) expense included a foreign exchange gain of $1.1 million as compared with foreign exchange loss of $0.7 million during fiscal 2006. The foreign exchange variance for fiscal 2007 was due to the weakening of the U.S. dollar, primarily related to receivables due from foreign subsidiaries to the U.S. parent company and denominated in foreign currencies. Fiscal 2007 included costs associated with the retirement of long-term debt of $2.5 million due to the Company entering into two separate agreements in August 2006 with certain holders of the Company s 8% notes to purchase $14.0 million of the 8% notes.

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In fiscal 2006, other (income) expense increased to an expense of $6.9 million from an expense of $4.7 million in fiscal 2005. Other (income) expense included a foreign exchange loss of $0.7 million during fiscal 2006 as compared to a foreign exchange gain of $1.0 million in fiscal 2005. The foreign exchange variance for fiscal 2006 was due to the strengthening of the U.S. dollar, primarily related to receivables due from foreign subsidiaries to the U.S. parent company and denominated in foreign currencies. Interest expense increased to $6.3 million in fiscal 2006 as compared to $6.1 million in fiscal 2005.

Income Tax Provision

The effective income tax rates for fiscal 2007 and 2006 were 29.1% and 362.8%, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from the Company s geographical distribution of taxable income or losses, foreign branch income subject to U.S. tax and valuation allowances related to net operating losses.

While the valuation allowance increased $1.8 million from June 3, 2006 to June 2, 2007, the Company recognized a tax benefit of $1.4 million related to the valuation allowance because of the allocation of taxes between continuing operations and discontinued operations required by U.S. generally accepted accounting principles. This tax benefit reduced the effective tax rate by 64.9% as of June 2, 2007. For fiscal 2006, the tax benefit related to net operating losses was limited by the requirement for a valuation allowance of $6.3 million which increased the effective income tax rate by 415.6%.

At June 2, 2007, domestic federal net operating loss carryforwards (NOL) amount to approximately $38.1 million. These federal NOL s expire between 2024 and 2027. Domestic state net operating loss carryforwards (NOL) amount to approximately $49.6 million. These state NOL s expire between 2007 and 2027. Foreign net operating loss carryforwards total approximately $11.6 million with various or indefinite expiration dates. In fiscal 2006, the Company re-evaluated the realization of certain deferred tax assets, resulting in an additional valuation allowance of $2.2 million. The Company believes that in order to reverse the recorded valuation allowance in any subsidiary, the Company would likely need to have positive cumulative earnings in that subsidiary for the three-year period preceding the year of the reversal. The Company also has an alternative minimum tax credit carryforward at June 2, 2007, in the amount of $1.2 million that has an indefinite carryforward period.

Income taxes paid, including foreign estimated tax payments, were $2.5 million, $1.9 million, and $0.6 million in fiscal 2007, 2006, and 2005, respectively.

At the end of fiscal 2004, all of the cumulative positive earnings of the Company s foreign subsidiaries, amounting to $35.1 million, were considered permanently reinvested pursuant to APB No. 23, *Accounting for Income Taxes-Special Areas*. As such, U.S. taxes were not provided on these amounts. In fiscal 2005, because of a strategic decision, the Company determined that approximately $12.9 million of one of its foreign subsidiaries earnings could no longer be considered permanently reinvested as those earnings may be distributed in future years. Based on management s potential future plans regarding this subsidiary, it was determined that these earnings would no longer meet the specific requirements for permanent reinvestment under APB No. 23. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income tax and foreign withholding taxes. As such, the Company established a deferred tax liability of approximately $4.9 million during fiscal 2005. The Company revised its estimate of the deferred tax liability of $4.9 million at June 3, 2006 based on changes in management s potential future plans for this subsidiary during fiscal 2006. In fiscal 2006, the Company revised its strategy and as of June 3, 2006 concluded that the undistributed earnings of this subsidiary were considered permanently reinvested outside the United States. The reversal of the $4.9 million deferred tax liability in fiscal 2006 resulted in an additional valuation allowance in the same amount and, therefore, did not affect the fiscal 2006 tax provision. Cumulative positive earnings of the Company s foreign subsidiaries were still considered permanently reinvested pursuant to APB No. 23 and amounted to $125.8 million at June 2, 2007. Due to various tax attributes that are continually changing, it is not possible to determine what, if any, tax liability might exist if such earnings were to be repatriated.

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During fiscal 2005, the Canadian taxing authority proposed an income tax assessment for fiscal 1998 through fiscal 2002. The Company appealed the income tax assessment; however, the Company paid the entire tax liability in fiscal 2005 to the Canadian taxing authority to avoid additional interest and penalties if the Company s appeal was denied. The payment was recorded as an increase to income tax provision in fiscal 2005. In May 2006, the appeal was settled in the Company s favor. The Company recorded a reduction to income tax provision for approximately $1.0 million related to the appeal settlement and subsequently received the refund during fiscal 2007.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase out ending December 31, 2006 of the existing extraterritorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with the international trade protocols by the European Union. The Company did not receive a tax benefit from the current ETI in fiscal 2007. When this benefit is fully phased out, it will have no impact on the rate.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes* (FIN 48). FIN 48 was issued to clarify the accounting for uncertainty in tax positions taken or expected to be taken in a tax return. Under FIN 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained upon examination by tax authorities. The Company plans to adopt FIN 48 for annual periods beginning June 3, 2007. The Company is currently evaluating the potential impact that the adoption of FIN 48 will have on its consolidated financial statements and at this time no material adjustments are anticipated.

Future effective tax rates could be adversely affected by lower than anticipated earnings in countries where the Company has lower statutory rates, changes in the valuation of certain deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, the Company is subject to the examination of its income tax returns by U.S. and foreign tax authorities and regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of the provision for income taxes.

Discontinued Operations

The following table summarizes results of discontinued operations, consisting of SSD/Burtek:

	Fiscal Year Ended				
	June 2, 2007	**June 3, 2006**	**May 28, 2005**	**FY07 vs FY06 % Change**	**FY06 vs FY05 % Change**
Net sales	$ 107,510	$ 108,843	$ 105,581	(1.2%)	3.1%
Gross profit	27,788	27,279	26,889	1.9%	1.5%
Gross margin %	25.8%	25.1%	25.5%		
(Loss) income, net of tax	(2,434)	1,368	2,763		

SSD/Burtek net sales decreased slightly during fiscal 2007 to $107.5 million, a 1.2% decline from $108.8 million last fiscal year, due mainly to a decline in demand for private label products. Gross profit remained relatively flat in fiscal 2007 at $27.8 million versus $27.3 million last fiscal year. Gross margin increased during fiscal 2007 to 25.8% from 25.1% last year mainly due to lower inventory overstock and scrap expense.

SSD/Burtek net sales increased 3.1% to $108.8 million in fiscal 2006 from $105.6 million in fiscal 2005. Net sales of private label products increased 9.0% to $35.0 million during fiscal 2006 as compared with $32.1 million during fiscal 2005, and were partially offset by a slight decrease in distribution products. Net sales in Canada in fiscal 2006 increased 13.2% from the prior year; however, net sales in Europe and the U.S. in fiscal 2006 decreased 18.0% and 9.8%, respectively. Gross profit and gross margin as a percentage of net sales remained relatively flat during fiscal 2006 as compared to fiscal 2005.

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In accordance with EITF 87-24 the Company has allocated interest expense to the discontinued operation (SSD/Burtek) due to the requirement under the Company s existing credit agreement to pay the proceeds from the sale of a business to the parties in the credit agreement. All borrowings under the credit agreement, $65.7 million as of June 2, 2007, are anticipated to be repaid by the end of the first quarter of fiscal 2008. As such, interest expense related to the credit agreement of $5.9 million, $3.5 million, and $2.8 million for fiscal 2007, 2006, and 2005, respectively, has been included in income (loss) from discontinued operations.

Net Income and Per Share Data

In fiscal 2007, the Company reported net income of $40.7 million, or $2.30 per diluted common share and $2.11 per diluted Class B common share. In fiscal 2006, the Company reported a net loss of $2.6 million, or $0.15 per diluted common share and $0.14 per diluted Class B common share. In fiscal 2005, the Company reported a net loss of $16.0 million, or $0.96 per diluted common share and $0.87 per diluted Class B common share.

Liquidity and Capital Resources

The Company has financed its growth and cash needs largely through income from operations, borrowings under the revolving credit facilities, issuance of convertible senior subordinated notes, and sale of assets. Liquidity provided by operating activities is reduced by working capital requirements, debt service, capital expenditures, dividends, and business acquisitions. Liquidity is increased by proceeds from borrowings and dispositions of businesses and assets.

Cash and cash equivalents was $17.4 million at June 2, 2007 as compared to $17.0 million at June 3, 2006. Cash used in operating activities during fiscal 2007 of $9.7 million was primarily due to the increase in inventories and receivables, partially offset by an increase in payables. The increase in inventories is due to higher inventory stocking levels to support anticipated sales growth. Accounts receivable increased due to increased sales levels. Accounts payable increased due to the increased levels of inventory. Cash provided by operating activities of $5.5 million in fiscal 2006 was due to the increase in payables partially offset by increases in inventories and accounts receivable. Receivables increased due to an approximate 13% increase in sales volume during the last two months of fiscal 2006 as compared to fiscal 2005, while inventories increased due to the Kern and Image Systems acquisitions and increased levels of inventory in anticipation of future increases in sales. The increase in payables was primarily the result of the increased levels of inventory.

Net cash provided by investing activities during fiscal 2007 of $80.3 million was mainly due to proceeds from the sale of SSD/Burtek of $78.1 million, proceeds from the sale of assets of $5.1 million, and the liquidation of $3.5 million of long-term investments, partially offset by capital expenditures of $6.4 million primarily related to information technology projects. For fiscal 2006, net cash used in investing activities of $12.7 million was mainly the result of the Kern acquisition, effective June 1, 2005, located in Donaueschingen in southern Germany. The cash outlay for Kern was $6.6 million, net of cash acquired. In addition, effective October 1, 2005, the Company acquired certain assets of Image Systems, a subsidiary of Communications Systems, Inc. in Hector, Minnesota. The initial cash outlay for Image Systems was $0.2 million. In addition, the Company spent $6.2 million on capital projects during fiscal 2006 primarily related to facility and information technology projects.

Net cash used in financing activities during fiscal 2007 of $71.2 million was mainly due to amounts maintained as restricted cash of $61.9 million resulting from proceeds from the sale of the SSD/Burtek business unit, that are required by the Company s credit agreement to be used to pay down outstanding debt amounts under the credit agreement, cash payments on the early debt retirement of $15.9 million, and dividend payments of $2.8 million, partially offset by net debt borrowings of $8.1 million. Net cash used in financing activities was $0.6 million in fiscal 2006.

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The credit agreement balance of $65.7 million is classified as current as of June 2, 2007 due to the obligation to pay off the credit agreement with the proceeds from the SSD/Burtek sale. The Company entered into a new $40.0 million credit agreement (new credit agreement) on July 27, 2007 which includes a Euro subfacility ($15.0 million) and a Singapore subfacility ($5.0 million). This new credit agreement expires in July 2010 and bears interest at applicable LIBOR, SIBOR, or prime rates plus a margin varying with certain quarterly borrowings under the new credit agreement. This new credit agreement is secured by a lien on the Company's assets and also contains only one financial covenant related to the ratio of senior funded debt to cash flow. The commitment fee related to the new credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment.

On September 8, 2006, the Company purchased $6.0 million of the 8% notes, and on December 8, 2006, the Company purchased $8.0 million of the 8% notes. The purchases were financed through additional borrowings under the Company's credit agreement. As the 8% notes are subordinate to the Company's existing credit agreement, the Company received a waiver from its lending group to permit the purchases. The Company recorded costs associated with the retirement of long-term debt of $2.5 million in connection with the purchases, which includes the write-off of previously capitalized deferred financing costs of $0.6 million.

On November 21, 2005, the Company sold $25.0 million in aggregate principal amount of 8% notes due 2011 pursuant to an indenture dated November 21, 2005. The 8% notes bear interest at a rate of 8% per annum. Interest is due on June 15 and December 15 of each year. The 8% notes are convertible at the option of the holder, at any time on or prior to maturity, into shares of the Company's common stock at a price equal to $10.31 per share, subject to adjustment in certain circumstances. In addition, the Company may elect to automatically convert the 8% notes into shares of common stock if the trading price of the common stock exceeds 150% of the conversion price of the 8% notes for at least 20 trading days during any 30 trading day period subject to a payment of three years of interest if the Company elects to convert the 8% notes prior to December 20, 2008.

The indenture provides that on or after December 20, 2008, the Company has the option of redeeming the 8% notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the 8% notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Holders may require the Company to repurchase all or a portion of their 8% notes for cash upon a change-of-control event, as described in the indenture, at a repurchase price equal to 100% of the principal amount of the 8% notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding the repurchase date. The 8% notes are unsecured and subordinate to the Company's existing and future senior debt. The 8% notes rank on parity with the Company's existing 7 3/4% convertible senior subordinated notes (7 3/4% notes) due December 2011.

In February 2005, the Company issued $44.7 million of 7 3/4% notes due 2011 in exchange for $22.2 million of its 7 1/4% convertible debentures (7 1/4% debentures) due December 2006 and $22.5 million of its 8 1/4% convertible senior debentures (8 1/4% debentures) due June 2006. The 7 3/4% notes are convertible at the holder's option, at any time on or prior to maturity, into shares of the Company's common stock at a price equal to $18.00 per share, subject to adjustments in certain circumstances. On or after December 19, 2006, the Company may elect to automatically convert the 7 3/4% notes into shares of common stock if the trading prices of the common stock exceeds 125% of the conversion price of the 7 3/4% notes for at least twenty trading days during any thirty trading day period ending within five trading days prior to the date of the automatic conversion notice. Subsequent to the exchange, the Company had outstanding $4.8 million of 7 1/4% debentures due December 2006, $17.5 million of 8 1/4% debentures due June 2006, and $44.7 million of 7 3/4% notes.

In October 2004, the Company renewed its credit agreement with the current lending group in the amount of approximately $109 million. On August 4, 2006, the Company amended its credit agreement and decreased the facility to approximately $97.9 million (the size of the credit line varies based on fluctuations in foreign currency exchange rates). The credit agreement was terminated on July 27, 2007. The portion of the credit line available for the Company to borrow is limited by the amount of collateral and certain covenants in the credit agreement. The credit agreement is principally secured by the Company's trade receivables and inventory. The