

RICHARDSON ELECTRONICS LTD/DE

Form 10-Q

January 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2013

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

(State or other jurisdiction of  
incorporation or organization)

36-2096643

(I.R.S. Employer  
Identification No.)

40W267 Keslinger Road, P.O. Box 393

LaFox, Illinois 60147-0393

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large Accelerated Filer  Accelerated Filer

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

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

As of January 6, 2014, there were outstanding 11,831,289 shares of Common Stock, \$0.05 par value and 2,190,644 shares of Class B Common Stock, \$0.05 par value, which are convertible into Common Stock of the registrant on a

share for share basis.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Richardson Electronics, Ltd.

Consolidated Balance Sheets

(in thousands, except per share amounts)

|                                                                                                                                | Unaudited<br>November 30,<br>2013 | Audited<br>June 1,<br>2013 |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|
| Assets                                                                                                                         |                                   |                            |
| Current assets:                                                                                                                |                                   |                            |
| Cash and cash equivalents                                                                                                      | \$92,646                          | \$102,002                  |
| Accounts receivable, less allowance of \$1,167 and \$1,092                                                                     | 20,216                            | 18,268                     |
| Inventories                                                                                                                    | 35,296                            | 33,975                     |
| Prepaid expenses and other assets                                                                                              | 1,453                             | 1,155                      |
| Deferred income taxes                                                                                                          | 1,983                             | 1,856                      |
| Income tax receivable                                                                                                          | 3,321                             | 6,429                      |
| Investments—current                                                                                                            | 39,508                            | 38,971                     |
| Discontinued operations—assets                                                                                                 | 356                               | 303                        |
| Total current assets                                                                                                           | 194,779                           | 202,959                    |
| Non-current assets:                                                                                                            |                                   |                            |
| Property, plant and equipment, net                                                                                             | 5,935                             | 5,073                      |
| Goodwill                                                                                                                       | 1,633                             | 1,519                      |
| Other intangibles                                                                                                              | 881                               | 908                        |
| Non-current deferred income taxes                                                                                              | 1,477                             | 1,398                      |
| Investments—non-current                                                                                                        | 1,991                             | 5,461                      |
| Total non-current assets                                                                                                       | 11,917                            | 14,359                     |
| Total assets                                                                                                                   | \$206,696                         | \$217,318                  |
| Liabilities and Stockholders' Equity                                                                                           |                                   |                            |
| Current liabilities:                                                                                                           |                                   |                            |
| Accounts payable                                                                                                               | \$12,152                          | \$14,255                   |
| Accrued liabilities                                                                                                            | 7,472                             | 9,566                      |
| Discontinued operations—liabilities                                                                                            | —                                 | 245                        |
| Total current liabilities                                                                                                      | 19,624                            | 24,066                     |
| Non-current liabilities:                                                                                                       |                                   |                            |
| Long-term income tax liabilities                                                                                               | 6,249                             | 6,726                      |
| Other non-current liabilities                                                                                                  | 1,284                             | 1,287                      |
| Total non-current liabilities                                                                                                  | 7,533                             | 8,013                      |
| Total liabilities                                                                                                              | 27,157                            | 32,079                     |
| Commitments and contingencies                                                                                                  | —                                 | —                          |
| Stockholders' equity                                                                                                           |                                   |                            |
| Common stock, \$0.05 par value; issued 11,828 shares at November 30, 2013, and 12,263 shares at June 1, 2013                   | 591                               | 613                        |
| Class B common stock, convertible, \$0.05 par value; issued 2,191 shares at November 30, 2013 and 2,491 shares at June 1, 2013 | 110                               | 125                        |
| Preferred stock, \$1.00 par value, no shares issued                                                                            | —                                 | —                          |
| Additional paid-in capital                                                                                                     | 65,760                            | 73,979                     |
| Common stock in treasury, at cost, 0 shares at November 30, 2013, and 9 shares at June 1, 2013                                 | —                                 | (105 )                     |
| Retained earnings                                                                                                              | 102,623                           | 101,816                    |

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|                                            |           |           |
|--------------------------------------------|-----------|-----------|
| Accumulated other comprehensive income     | 10,455    | 8,811     |
| Total stockholders' equity                 | 179,539   | 185,239   |
| Total liabilities and stockholders' equity | \$206,696 | \$217,318 |

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Richardson Electronics, Ltd.

Unaudited Consolidated Statements of Comprehensive Income

(in thousands, except per share amounts)

|                                                       | Three Months Ended   |                     | Six Months Ended        |                     |
|-------------------------------------------------------|----------------------|---------------------|-------------------------|---------------------|
|                                                       | November 30,<br>2013 | December 1,<br>2012 | November<br>30,<br>2013 | December 1,<br>2012 |
| Net Sales                                             | \$35,436             | \$36,603            | \$69,693                | \$72,253            |
| Cost of Sales                                         | 24,429               | 25,861              | 48,494                  | 50,865              |
| Gross profit                                          | 11,007               | 10,742              | 21,199                  | 21,388              |
| Selling, general, and administrative expenses         | 10,473               | 10,228              | 20,542                  | 20,377              |
| Loss on disposal of assets                            | —                    | 2                   | —                       | (2)                 |
| Operating income                                      | 534                  | 512                 | 657                     | 1,013               |
| Other (income) expense:                               |                      |                     |                         |                     |
| Investment/interest income                            | (255)                | (352)               | (520)                   | (735)               |
| Foreign exchange (gain) loss                          | (14)                 | 297                 | 92                      | 260                 |
| Proceeds from legal settlement                        | —                    | —                   | (2,115)                 | —                   |
| Other, net                                            | 15                   | (42)                | (15)                    | (65)                |
| Total other income                                    | (254)                | (97)                | (2,558)                 | (540)               |
| Income from continuing operations before income taxes | 788                  | 609                 | 3,215                   | 1,553               |
| Income tax provision                                  | 157                  | 28                  | 605                     | 238                 |
| Income from continuing operations                     | 631                  | 581                 | 2,610                   | 1,315               |
| Loss from discontinued operations, net of tax         | (107)                | (203)               | (118)                   | (290)               |
| Net income                                            | 524                  | 378                 | 2,492                   | 1,025               |
| Foreign currency translation gain, net of tax         | 1,196                | 1,547               | 1,621                   | 1,947               |
| Fair value adjustments on investments                 | 22                   | 4                   | 23                      | 5                   |
| Comprehensive income                                  | \$1,742              | \$1,929             | \$4,136                 | \$2,977             |
| Net income per Common share - Basic:                  |                      |                     |                         |                     |
| Income from continuing operations                     | \$0.05               | \$0.04              | \$0.19                  | \$0.09              |
| Loss from discontinued operations                     | (0.01)               | (0.01)              | (0.01)                  | (0.02)              |
| Total net income per Common share - Basic:            | \$0.04               | \$0.03              | \$0.18                  | \$0.07              |
| Net income per Class B common share - Basic:          |                      |                     |                         |                     |
| Income from continuing operations                     | \$0.04               | \$0.03              | \$0.17                  | \$0.08              |
| Loss from discontinued operations                     | (0.01)               | (0.01)              | (0.01)                  | (0.02)              |
| Total net income per Class B common share - Basic:    | \$0.03               | \$0.02              | \$0.16                  | \$0.06              |
| Net income per Common share - Diluted:                |                      |                     |                         |                     |
| Income from continuing operations                     | \$0.04               | \$0.04              | \$0.18                  | \$0.08              |
| Loss from discontinued operations                     | (0.01)               | (0.01)              | (0.01)                  | (0.02)              |
| Total net income per Common share - Diluted:          | \$0.03               | \$0.03              | \$0.17                  | \$0.06              |
| Net income per Class B common share - Diluted:        |                      |                     |                         |                     |
| Income from continuing operations                     | \$0.04               | \$0.03              | \$0.17                  | \$0.08              |
| Loss from discontinued operations                     | (0.01)               | (0.01)              | (0.01)                  | (0.02)              |
| Total net income per Class B common share - Diluted:  | \$0.03               | \$0.02              | \$0.16                  | \$0.06              |
| Weighted average number of shares:                    |                      |                     |                         |                     |
| Common shares - Basic                                 | 11,871               | 12,437              | 11,997                  | 12,604              |
| Class B common shares - Basic                         | 2,191                | 2,812               | 2,309                   | 2,863               |
| Common shares - Diluted                               | 14,185               | 15,345              | 14,433                  | 15,567              |
| Class B common shares - Diluted                       | 2,191                | 2,812               | 2,309                   | 2,863               |
| Dividends per common share                            | \$0.060              | \$0.060             | \$0.120                 | \$0.120             |
| Dividends per Class B common share                    | \$0.054              | \$0.054             | \$0.108                 | \$0.108             |



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Richardson Electronics, Ltd.  
 Unaudited Consolidated Statements of Cash Flows  
 (in thousands)

|                                                                                            | Three Months Ended      |                     | Six Months Ended        |                     |
|--------------------------------------------------------------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
|                                                                                            | November<br>30,<br>2013 | December 1,<br>2012 | November<br>30,<br>2013 | December 1,<br>2012 |
| Operating activities:                                                                      |                         |                     |                         |                     |
| Net income                                                                                 | \$524                   | \$378               | \$2,492                 | \$1,025             |
| Adjustments to reconcile net income to cash provided by<br>(used in) operating activities: |                         |                     |                         |                     |
| Depreciation and amortization                                                              | 273                     | 266                 | 521                     | 565                 |
| Gain on sale of investments                                                                | (12                     | ) (1                | ) (19                   | ) (21               |
| (Gain) loss on disposal of assets                                                          | —                       | 2                   | —                       | (2                  |
| Share-based compensation expense                                                           | 270                     | 208                 | 384                     | 332                 |
| Deferred income taxes                                                                      | (108                    | ) (7                | ) (167                  | ) (8                |
| Change in assets and liabilities, net of effect of acquired<br>businesses:                 |                         |                     |                         |                     |
| Accounts receivable                                                                        | (508                    | ) (758              | ) (1,726                | ) (1,404            |
| Income tax receivable                                                                      | 357                     | 36                  | 3,108                   | 191                 |
| Inventories                                                                                | 310                     | 2,265               | (140                    | ) 1,715             |
| Prepaid expenses and other assets                                                          | (430                    | ) 196               | (274                    | ) (426              |
| Accounts payable                                                                           | 317                     | 2,664               | (2,230                  | ) 1,234             |
| Accrued liabilities                                                                        | (565                    | ) 806               | (2,455                  | ) (200              |
| Long-term income tax liabilities                                                           | (235                    | ) 4                 | (477                    | ) (317              |
| Other                                                                                      | 56                      | 148                 | 47                      | 190                 |
| Net cash provided by (used in) operating activities                                        | 249                     | 6,207               | (936                    | ) 2,874             |
| Investing activities:                                                                      |                         |                     |                         |                     |
| Cash consideration paid for acquired businesses                                            | —                       | (2,557              | ) (973                  | ) (2,557            |
| Capital expenditures                                                                       | (540                    | ) (478              | ) (981                  | ) (557              |
| Proceeds from sale of assets                                                               | —                       | —                   | —                       | 4                   |
| Proceeds from maturity of investments                                                      | 14,044                  | 39,763              | 54,532                  | 97,510              |
| Purchases of investments                                                                   | (11,458                 | ) (23,838           | ) (51,552               | ) (75,562           |
| Proceeds from sales of available-for-sale securities                                       | 20                      | 83                  | 76                      | 137                 |
| Purchases of available-for-sale securities                                                 | (20                     | ) (83               | ) (76                   | ) (137              |
| Other                                                                                      | 22                      | —                   | 91                      | —                   |
| Net cash provided by investing activities                                                  | 2,068                   | 12,890              | 1,117                   | 18,838              |
| Financing activities:                                                                      |                         |                     |                         |                     |
| Repurchase of common stock                                                                 | (2,025                  | ) (5,998            | ) (8,725                | ) (11,550           |
| Proceeds from issuance of common stock                                                     | 100                     | 72                  | 171                     | 83                  |
| Cash dividends paid                                                                        | (828                    | ) (1,799            | ) (1,685                | ) (1,799            |
| Other                                                                                      | —                       | —                   | 1                       | —                   |
| Net cash used in financing activities                                                      | (2,753                  | ) (7,725            | ) (10,238               | ) (13,266           |
| Effect of exchange rate changes on cash and cash<br>equivalents                            | 552                     | 908                 | 701                     | 1,179               |
| Increase/ (decrease) in cash and cash equivalents                                          | 116                     | 12,280              | (9,356                  | ) 9,625             |
| Cash and cash equivalents at beginning of period                                           | 92,530                  | 41,238              | 102,002                 | 43,893              |
| Cash and cash equivalents at end of period                                                 | \$92,646                | \$53,518            | \$92,646                | \$53,518            |





Richardson Electronics, Ltd.

Unaudited Consolidated Statement of Stockholders' Equity

(in thousands)

|                                       | Common | Class B<br>Common | Par<br>Value | Additional<br>Paid-in<br>Capital | Common<br>Stock in<br>Treasury | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|---------------------------------------|--------|-------------------|--------------|----------------------------------|--------------------------------|----------------------|-------------------------------------------------|-----------|
| Balance June 1, 2013:                 | 12,263 | 2,491             | \$738        | \$73,979                         | \$(105 )                       | \$101,816            | \$ 8,811                                        | \$185,239 |
| Comprehensive income                  |        |                   |              |                                  |                                |                      |                                                 |           |
| Net income                            | —      | —                 | —            | —                                | —                              | 2,492                | —                                               | 2,492     |
| Foreign currency translation          | —      | —                 | —            | —                                | —                              | —                    | 1,621                                           | 1,621     |
| Fair value adjustments on investments | —      | —                 | —            | —                                | —                              | —                    | 23                                              | 23        |
| Share-based compensation:             |        |                   |              |                                  |                                |                      |                                                 |           |
| Non-vested restricted stock           | —      | —                 | —            | 18                               | —                              | —                    | —                                               | 18        |
| Stock options                         | —      | —                 | —            | 384                              | —                              | —                    | —                                               | 384       |
| Common stock:                         |        |                   |              |                                  |                                |                      |                                                 |           |
| Employee stock option grant           | —      | —                 | —            | —                                | —                              | —                    | —                                               | —         |
| Options Exercised                     | 29     | —                 | 1            | 170                              | —                              | —                    | —                                               | 171       |
| Canceled Shares                       | —      | (300 )            | —            | —                                | —                              | —                    | —                                               | —         |
| Converted Class B to Common           | 300    | —                 | —            | —                                | —                              | —                    | —                                               | —         |
| Repurchase of common stock            | —      | —                 | —            | —                                | (8,725 )                       | —                    | —                                               | (8,725 )  |
| Treasury stock                        | (764 ) | —                 | (38 )        | (8,791 )                         | 8,829                          | —                    | —                                               | —         |
| Other                                 | —      | —                 | —            | —                                | 1                              | —                    | —                                               | 1         |
| Dividends paid to:                    |        |                   |              |                                  |                                |                      |                                                 |           |
| Common (\$0.06 per share)             | —      | —                 | —            | —                                | —                              | (1,433 )             | —                                               | (1,433 )  |
| Class B (\$0.054 per share)           | —      | —                 | —            | —                                | —                              | (252 )               | —                                               | (252 )    |
| Balance November 30, 2013:            | 11,828 | 2,191             | \$701        | \$65,760                         | \$—                            | \$102,623            | \$ 10,455                                       | \$179,539 |

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. (“we”, “us”, “the Company”, and “our”) is incorporated in the state of Delaware. We are a leading global provider of engineered solutions, power grid and microwave tubes and related components, and customized display solutions, serving customers in the alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. Our strategy is to provide specialized technical expertise and “engineered solutions” based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair.

Our products include electron tubes and related components, microwave generators, subsystems used in semiconductor manufacturing, and visual technology solutions. These products are used to control, switch or amplify electrical power signals, or are used as display devices in a variety of industrial, commercial, medical, and communication applications.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (“D and C”) for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the broadcast, commercial, industrial, medical, military, and scientific markets. This acquisition provides us with access to additional product lines, vendors, and customers.

On July 5, 2013, we acquired the assets of WVS-Technology (“WVS”) for approximately \$1.0 million. WVS, located in Meerbusch, Germany, develops and sells RF and microwave products, power grid tubes, vacuum capacitors, as well as industrial microwave equipment. This acquisition provides us with engineering and sales expertise to help expand our presence in the vacuum capacitor market.

We have two operating segments, which we define as follows:

Electron Device Group (“EDG”) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and medical original equipment manufacturer (“OEM”) markets.

We currently have operations in the following major geographic regions:

- North America;
- Asia/Pacific;
- Europe; and
- Latin America.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements.

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The first six months of fiscal 2014 and 2013 contained 26 weeks, respectively.

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In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the three and six months ended November 30, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2014.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended June 1, 2013, that we filed on July 26, 2013.

**3. UPDATES TO CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

**Inventories:** Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Our inventories from continuing operations include approximately \$32.5 million of finished goods and \$2.7 million of raw materials and work-in-progress as of November 30, 2013, as compared to approximately \$31.6 million of finished goods and \$2.4 million of raw materials and work-in-progress as of June 1, 2013.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs.

**Revenue Recognition:** Our product sales are recognized as revenue upon shipment, when title passes to the customer, when delivery has occurred or services have been rendered, and when collectability is reasonably assured. We also record estimated discounts and returns based on our historical experience. Our products are often manufactured to meet the specific design needs of our customers' applications. Our engineers work closely with customers to ensure that our products will meet their needs. Our customers are under no obligation to compensate us for designing the products we sell.

In the limited cases where remaining performance obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory and is not essential to the functionality of the delivered product. This conclusion was reached based on the following facts: the timing of any remaining obligation is agreed upon with the customer, which in most cases, is performed immediately after the delivery of the product; the cost and time involved to complete the remaining obligation is insignificant in relation to the item sold, and the costs and time do not vary significantly; we have a demonstrated history of completing the remaining obligations timely; and finally, failure to complete the remaining obligation does not enable the customer to receive a full or partial refund of the product or service, and the timing of the payment for the product is not contingent upon completion of remaining performance obligations, if any.

**Discontinued Operations:** During fiscal year 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division ("RFPD"), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. ("Arrow") in exchange for \$238.8 million ("the Transaction"). In accordance with Accounting Standards Codification ("ASC") 205-20, Presentation of Financial Statements - Discontinued Operations ("ASC 205-20"), we reported the financial results of RFPD as a discontinued operation. Refer to Note 4 "Discontinued Operations" of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

**Loss Contingencies:** We accrue a liability for loss contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. If we determine that there is at least a reasonable possibility that a loss may have been incurred, we will include a disclosure describing the contingency.

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Goodwill and Other Intangible Assets: Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicates an impairment may have occurred, such as a significant adverse change in the business climate, loss of key personnel or a decision to sell or dispose of a reporting unit. As of November 30, 2013, our goodwill balance was \$1.6 million and represents the premium we paid for Powerlink Specialist Electronics Support Limited ("Powerlink") of \$1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation; the premium we paid for D and C Import-Export, Inc. ("D and C") of \$0.2 million during our second quarter of fiscal 2013; and the premium we paid for WVS of less than \$0.1 million during our first quarter of fiscal 2014.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment through the application of a fair value based test, using the third quarter as the measurement date. In performing our annual review of goodwill balances for impairment, we estimate the fair value of each of our reporting units based primarily on projected future operating results, discounted cash flows, and other assumptions. Projected future operating results and cash flows used for valuation purposes may reflect considerable improvements relative to historical periods with respect to, among other things, revenue growth and operating margins. Although we believe our projected future operating results and cash flows and related estimates regarding fair values are based on reasonable assumptions, historically, projected operating results and cash flows have not always been achieved. In accordance with ASC 350 "Intangibles - Goodwill and Other", if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period identified.

Intangible assets are initially recorded at their fair market values determined on quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized on a straight-line basis over their useful lives.

**4. DISCONTINUED OPERATIONS**

## Financial Summary – Discontinued Operations

Summary financial results for the three and six months ended November 30, 2013, and December 1, 2012, are presented in the following table (in thousands):

|                                               | Three Months Ended   |                     | Six Months Ended     |                     |
|-----------------------------------------------|----------------------|---------------------|----------------------|---------------------|
|                                               | November 30,<br>2013 | December 1,<br>2012 | November 30,<br>2013 | December 1,<br>2012 |
| Net sales                                     | \$178                | \$278               | \$264                | \$499               |
| Gross profit (loss) (1)                       | (55                  | ) (128              | ) (103               | ) (221              |
| Selling, general, and administrative expenses | 117                  | 201                 | 149                  | 266                 |
| Other expense                                 | —                    | 1                   | 1                    | 1                   |
| Income tax benefit                            | (65                  | ) (127              | ) (135               | ) (198              |
| Loss from discontinued operations, net of tax | \$(107               | ) \$(203            | ) \$(118             | ) \$(290            |

## Notes:

(1) Gross profit (loss) for fiscal year 2014 and 2013 includes unabsorbed manufacturing labor and overhead expenses related to the Manufacturing Agreement with RFPD which ends March 1, 2014.

Net sales and gross profit (loss) for the three and six months ended November 30, 2013, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction.

Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products.

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Assets and liabilities classified as discontinued operations on our consolidated balance sheets as of November 30, 2013, and June 1, 2013, include the following (in thousands):

|                                       | November 30, 2013 | June 1, 2013 |
|---------------------------------------|-------------------|--------------|
| Inventories                           | \$356             | \$303        |
| Discontinued operations - Assets      | \$356             | \$303        |
| Accrued liabilities - current         | \$—               | \$245        |
| Discontinued operations - Liabilities | \$—               | \$245        |

In accordance with ASC 230, Statement of Cash Flows, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flow information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. We did not have cash balances that were specific to RFPD and elected not to present separate cash flows from discontinued operations on our statement of cash flows.

## 5. ACQUISITIONS

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. ("D and C") for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the broadcast, commercial, industrial, medical, military, and scientific markets. This acquisition provides us with access to additional product lines, vendors, and customers.

The final purchase price was recorded during the fourth quarter of fiscal 2013, and allocated as follows: \$0.2 million of trade receivables, \$1.5 million of inventory, \$0.7 million of specifically identified intangible assets, and \$0.2 million of goodwill. Pro forma financial information is not presented due to immateriality.

On July 5, 2013, we acquired the assets of WVS for approximately \$1.0 million. WVS, located in Meerbusch, Germany, develops and sells RF and microwave products, power grid tubes, vacuum capacitors, as well as industrial microwave equipment. This acquisition provides us with engineering and sales expertise to help expand our presence in the vacuum capacitor market.

The allocation of the preliminary purchase price recorded during the first quarter of fiscal 2014, included \$0.7 million of inventory and \$0.3 million of fixed assets. The purchase price is preliminary and subject to change based on the completion of a valuation of the respective assets. Pro forma financial information is not presented due to immateriality.

## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying value of goodwill are as follows (in thousands):

|                                  | TOTAL   |
|----------------------------------|---------|
| Balance at June 1, 2013          | \$1,519 |
| Premium Paid for WVS Acquisition | 25      |
| Foreign currency translation     | 89      |
| Balance at November 30, 2013     | \$1,633 |

The goodwill balance in its entirety relates to our EDG segment.

Intangible assets are initially recorded at their fair market values determined on quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized on a straight-line basis over their useful lives.

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Our intangible assets represent the fair value for trade name, customer relationships, and non-compete agreements acquired in connection with our acquisitions.

Intangible assets subject to amortization as well as amortization expense are as follows (in thousands):

|                                | Intangible Assets Subject to Amortization as of |              |
|--------------------------------|-------------------------------------------------|--------------|
|                                | November 30, 2013                               | June 1, 2013 |
| Gross Amounts:                 |                                                 |              |
| Trade Name                     | \$29                                            | \$29         |
| Customer Relationship          | 969                                             | 947          |
| Non-compete Agreements         | 47                                              | 47           |
| Total Gross Amounts            | \$1,045                                         | \$1,023      |
| Accumulated Amortization:      |                                                 |              |
| Trade Name                     | \$13                                            | \$8          |
| Customer Relationship          | 141                                             | 101          |
| Non-compete Agreements         | 10                                              | 6            |
| Total Accumulated Amortization | \$164                                           | \$115        |

The amortization expense associated with the intangible assets subject to amortization for the next five years is presented in the following table (in thousands):

| Fiscal Year    | Amortization Expense |
|----------------|----------------------|
| Remaining 2014 | \$44                 |
| 2015           | 82                   |
| 2016           | 68                   |
| 2017           | 58                   |
| 2018           | 56                   |
| Thereafter     | 573                  |

The weighted average number of years of amortization expense remaining is 17.9.

## 7. INVESTMENTS

As of November 30, 2013, we had approximately \$41.0 million invested in time deposits and certificates of deposit ("CD"). Of this, \$39.5 million mature in less than twelve months and \$1.5 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

As of June 1, 2013, we had approximately \$44.0 million invested in time deposits and CD's. Of this, \$39.0 million mature in less than twelve months and \$5.0 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

We also have investments in equity securities, all of which are classified as available-for-sale and are carried at their fair value based on quoted market prices. Our investments, which are included in non-current assets, had a carrying amount of \$0.5 million as of November 30, 2013, and as of June 1, 2013. Proceeds from the sale of securities were \$0.1 million during the second quarter of fiscal 2014 and fiscal 2013. We reinvested proceeds from the sale of securities, and the cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than \$0.1 million during the second quarter of fiscal 2014 and fiscal 2013. Net unrealized holding losses of less than \$0.1 million during the second quarter of fiscal 2014 and fiscal 2013 have been included in accumulated other comprehensive income.

Table of Contents**8. WARRANTIES**

We offer warranties for the limited number of specific products we manufacture. We also provide extended warranties for some products we sell that lengthen the period of coverage specified in the manufacturer's original warranty. Our warranty terms generally range from one to three years.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence.

Warranty reserves were approximately \$0.2 million as of November 30, 2013, and June 1, 2013.

**9. LEASE OBLIGATIONS, OTHER COMMITMENTS, AND CONTINGENCIES**

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense from continuing operations during the first six months of fiscal 2014 was \$0.8 million compared to \$0.7 million during the first six months of fiscal 2013. Under the terms of the Transaction, Arrow assumed many of our facility leases and we are sub-leasing space from Arrow. Our future lease commitments for minimum rentals, including common area maintenance charges and property taxes during the next five years have been adjusted to reflect the Transaction as follows (in thousands):

| Fiscal Year    | Payments |
|----------------|----------|
| Remaining 2014 | \$679    |
| 2015           | 1,094    |
| 2016           | 686      |
| 2017           | 77       |
| 2018           | 31       |
| Thereafter     | —        |

**10. INCOME TAXES**

The effective income tax rate from continuing operations during the first six months of fiscal 2014 was 18.8%, as compared to 15.3% during the first six months of fiscal 2013. The increase in rate during the first six months of fiscal 2014, as compared to fiscal 2013, was due to an increase in the amount of foreign earnings not considered to be permanently reinvested and an increase in forecasted earnings available in foreign jurisdictions for distribution with respect to ASC 740-30, Income Taxes – Other Considerations or Special Areas ("ASC 740-30"). The 18.8% effective income tax rate is lower than the federal statutory rate of 34.0% as a result of our geographical distribution of income and apportionment of income to various states. Additionally, during the second quarter of fiscal 2014, we developed a strategy for the recently acquired German business to pursue increased market opportunities in Germany; therefore, we have changed our position with respect to earnings in Germany which are now considered to be permanently reinvested under ASC 740-30. This change in the Company's assertion further reduced the effective tax rate for the first six months of fiscal 2014 by 7.6%.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2006 are closed for examination under the statute of limitations for U.S. federal, state or local, or non-U.S. tax jurisdictions. During fiscal 2013, we completed federal audits in the U.S. for fiscal 2009, 2010, and 2011. Our primary foreign tax jurisdictions are the Netherlands and Germany. We have tax years open in the Netherlands and Germany beginning in fiscal 2008.

As of November 30, 2013, approximately \$42.8 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30. Due to various tax attributes that are continuously changing, it is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.



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As of November 30, 2013, we did not have any worldwide liability for uncertain tax positions related to continuing operations as compared to \$0.4 million as of December 1, 2012. We have no recorded penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is not expected that there will be a change in the unrecognized tax benefits within the next 12 months.

**11. CALCULATION OF EARNINGS PER SHARE**

We have authorized 30,000,000 shares of common stock, 10,000,000 shares of Class B common stock, and 5,000,000 shares of preferred stock. The Class B common stock has 10 votes per share and has transferability restrictions; however, Class B common stock may be converted into common stock on a share-for-share basis at any time. With respect to dividends and distributions, shares of common stock and Class B common stock rank equally and have the same rights, except that Class B common stock cash dividends are limited to 90% of the amount of Class A common stock cash dividends.

In accordance with ASC 260-10, Earnings Per Share (“ASC 260”), our Class B common stock is considered a participating security requiring the use of the two-class method for the computation of basic and diluted earnings per share. The two-class computation method for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Basic and diluted earnings per share were computed using the two-class method as prescribed in ASC 260. The shares of Class B common stock are considered to be participating convertible securities since the shares of Class B common stock are convertible on a share-for-share basis into shares of common stock and may participate in dividends with common stock according to a predetermined formula which is 90% of the amount of Class A common stock cash dividends.

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The earnings per share (“EPS”) presented in our unaudited consolidated statements of comprehensive income are based on the following amounts (in thousands, except per share amounts):

|                                                                                                          | For the Three Months Ended |          |                  |           |
|----------------------------------------------------------------------------------------------------------|----------------------------|----------|------------------|-----------|
|                                                                                                          | November 30, 2013          |          | December 1, 2012 |           |
|                                                                                                          | Basic                      | Diluted  | Basic            | Diluted   |
| <b>Numerator for Basic and Diluted EPS:</b>                                                              |                            |          |                  |           |
| Income from continuing operations                                                                        | \$631                      | \$631    | \$581            | \$581     |
| Less dividends:                                                                                          |                            |          |                  |           |
| Common stock                                                                                             | 710                        | 710      | 737              | 737       |
| Class B common stock                                                                                     | 118                        | 118      | 148              | 148       |
| Undistributed losses                                                                                     | \$(197)                    | \$(197)  | \$(304)          | \$(304)   |
| Common stock undistributed losses                                                                        | \$(169)                    | \$(169)  | \$(253)          | \$(253)   |
| Class B common stock undistributed losses                                                                | (28)                       | (28)     | (51)             | (51)      |
| Total undistributed losses                                                                               | \$(197)                    | \$(197)  | \$(304)          | \$(304)   |
| Loss from discontinued operations                                                                        | \$(107)                    | \$(107)  | \$(203)          | \$(203)   |
| Less dividends:                                                                                          |                            |          |                  |           |
| Common stock                                                                                             | 710                        | 710      | 737              | 737       |
| Class B common stock                                                                                     | 118                        | 118      | 148              | 148       |
| Undistributed losses                                                                                     | \$(935)                    | \$(935)  | \$(1,088)        | \$(1,088) |
| Common stock undistributed losses                                                                        | \$(802)                    | \$(803)  | \$(904)          | \$(905)   |
| Class B common stock undistributed losses                                                                | (133)                      | (132)    | (184)            | (183)     |
| Total undistributed losses                                                                               | \$(935)                    | \$(935)  | \$(1,088)        | \$(1,088) |
| Net income                                                                                               | \$524                      | \$524    | \$378            | \$378     |
| Less dividends:                                                                                          |                            |          |                  |           |
| Common stock                                                                                             | 710                        | 710      | 737              | 737       |
| Class B common stock                                                                                     | 118                        | 118      | 148              | 148       |
| Undistributed losses                                                                                     | \$(304)                    | \$(304)  | \$(507)          | \$(507)   |
| Common stock undistributed losses                                                                        | \$(261)                    | \$(261)  | \$(421)          | \$(422)   |
| Class B common stock undistributed losses                                                                | (43)                       | (43)     | (86)             | (85)      |
| Total undistributed losses                                                                               | \$(304)                    | \$(304)  | \$(507)          | \$(507)   |
| <b>Denominator for basic and diluted EPS:</b>                                                            |                            |          |                  |           |
| Common stock weighted average shares                                                                     | 11,871                     | 11,871   | 12,437           | 12,437    |
| Class B common stock weighted average shares,<br>and shares under if-converted method for<br>diluted EPS | 2,191                      | 2,191    | 2,812            | 2,812     |
| Effect of dilutive stock options                                                                         |                            | 123      |                  | 96        |
| Denominator for diluted EPS adjusted for weighted<br>average shares and assumed conversions              |                            | 14,185   |                  | 15,345    |
| <b>Income from continuing operations per share:</b>                                                      |                            |          |                  |           |
| Common stock                                                                                             | \$0.05                     | \$0.04   | \$0.04           | \$0.04    |
| Class B common stock                                                                                     | \$0.04                     | \$0.04   | \$0.03           | \$0.03    |
| <b>Loss from discontinued operations per share:</b>                                                      |                            |          |                  |           |
| Common stock                                                                                             | \$(0.01)                   | \$(0.01) | \$(0.01)         | \$(0.01)  |
| Class B common stock                                                                                     | \$(0.01)                   | \$(0.01) | \$(0.01)         | \$(0.01)  |
| <b>Net income per share:</b>                                                                             |                            |          |                  |           |
| Common stock                                                                                             | \$0.04                     | \$0.03   | \$0.03           | \$0.03    |
| Class B common stock                                                                                     | \$0.03                     | \$0.03   | \$0.02           | \$0.02    |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2014 and fiscal 2013 were 512,064 and 477,064, respectively.

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|                                                                                                    | Six Months Ended  |           | December 1, 2012 |           |
|----------------------------------------------------------------------------------------------------|-------------------|-----------|------------------|-----------|
|                                                                                                    | November 30, 2013 |           | Basic            | Diluted   |
|                                                                                                    | Basic             | Diluted   | Basic            | Diluted   |
| Numerator for Basic and Diluted EPS:                                                               |                   |           |                  |           |
| Income from continuing operations                                                                  | \$2,610           | \$2,610   | \$1,315          | \$1,315   |
| Less dividends:                                                                                    |                   |           |                  |           |
| Common stock                                                                                       | 1,433             | 1,433     | 1,495            | 1,495     |
| Class B common stock                                                                               | 252               | 252       | 304              | 304       |
| Undistributed earnings (losses)                                                                    | \$925             | \$925     | \$(484)          | \$(484)   |
| Common stock undistributed earnings (losses)                                                       | \$788             | \$790     | \$(402)          | \$(402)   |
| Class B common stock undistributed earnings (losses)                                               | 137               | 135       | (82)             | (82)      |
| Total undistributed earnings (losses)                                                              | \$925             | \$925     | \$(484)          | \$(484)   |
| Loss from discontinued operations                                                                  | \$(118)           | \$(118)   | \$(290)          | \$(290)   |
| Less dividends:                                                                                    |                   |           |                  |           |
| Common stock                                                                                       | 1,433             | 1,433     | 1,495            | 1,495     |
| Class B common stock                                                                               | 252               | 252       | 304              | 304       |
| Undistributed losses                                                                               | \$(1,803)         | \$(1,803) | \$(2,089)        | \$(2,089) |
| Common stock undistributed losses                                                                  | \$(1,537)         | \$(1,539) | \$(1,734)        | \$(1,737) |
| Class B common stock undistributed losses                                                          | (266)             | (264)     | (355)            | (352)     |
| Total undistributed losses                                                                         | \$(1,803)         | \$(1,803) | \$(2,089)        | \$(2,089) |
| Net income                                                                                         | \$2,492           | \$2,492   | \$1,025          | \$1,025   |
| Less dividends:                                                                                    |                   |           |                  |           |
| Common stock                                                                                       | 1,433             | 1,433     | 1,495            | 1,495     |
| Class B common stock                                                                               | 252               | 252       | 304              | 304       |
| Undistributed earnings (losses)                                                                    | \$807             | \$807     | \$(774)          | \$(774)   |
| Common stock undistributed earnings (losses)                                                       | \$688             | \$689     | \$(643)          | \$(643)   |
| Class B common stock undistributed earnings (losses)                                               | 119               | 118       | (131)            | (131)     |
| Total undistributed earnings (losses)                                                              | \$807             | \$807     | \$(774)          | \$(774)   |
| Denominator for basic and diluted EPS:                                                             |                   |           |                  |           |
| Common stock weighted average shares                                                               | 11,997            | 11,997    | 12,604           | 12,604    |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,309             | 2,309     | 2,863            | 2,863     |
| Effect of dilutive securities Dilutive stock options                                               |                   | 127       |                  | 100       |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions           |                   | 14,433    |                  | 15,567    |
| Income from continuing operations per share:                                                       |                   |           |                  |           |
| Common stock                                                                                       | \$0.19            | \$0.18    | \$0.09           | \$0.08    |
| Class B common stock                                                                               | \$0.17            | \$0.17    | \$0.08           | \$0.08    |
| Loss from discontinued operations per share:                                                       |                   |           |                  |           |
| Common stock                                                                                       | \$(0.01)          | \$(0.01)  | \$(0.02)         | \$(0.02)  |
| Class B common stock                                                                               | \$(0.01)          | \$(0.01)  | \$(0.02)         | \$(0.02)  |
| Net income per share:                                                                              |                   |           |                  |           |
| Common stock                                                                                       | \$0.18            | \$0.17    | \$0.07           | \$0.06    |
| Class B common stock                                                                               | \$0.16            | \$0.16    | \$0.06           | \$0.06    |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2014 and fiscal 2013 were 487,064 and 267,564, respectively.

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## 12. SEGMENT REPORTING

In accordance with ASC 280-10, Segment Reporting, we have identified two reportable segments: EDG and Canvys. EDG provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment. Canvys provides global customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and OEM markets.

The CEO evaluates performance and allocates resources primarily based on the gross profit of each segment.

Operating results by segment are summarized in the following table (in thousands):

|              | Three Months Ended   |                     | Six Months Ended     |                     |
|--------------|----------------------|---------------------|----------------------|---------------------|
|              | November 30,<br>2013 | December 1,<br>2012 | November 30,<br>2013 | December 1,<br>2012 |
| EDG          |                      |                     |                      |                     |
| Net Sales    | \$26,163             | \$26,186            | \$51,642             | \$51,813            |
| Gross Profit | 8,507                | 7,930               | 16,366               | 15,930              |
| Canvys       |                      |                     |                      |                     |
| Net Sales    | \$9,273              | \$10,417            | \$18,051             | \$20,440            |
| Gross Profit | 2,500                | 2,812               | 4,833                | 5,458               |

Geographic net sales information is primarily grouped by customer destination into five areas: North America; Asia/Pacific; Europe; Latin America; and Other.

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Net sales and gross profit by geographic region are summarized in the following table (in thousands):

|                     | Three Months Ended   |                     | Six Months Ended     |                     |
|---------------------|----------------------|---------------------|----------------------|---------------------|
|                     | November 30,<br>2013 | December 1,<br>2012 | November 30,<br>2013 | December 1,<br>2012 |
| Net Sales           |                      |                     |                      |                     |
| North America       | \$ 14,296            | \$ 16,436           | \$ 28,492            | \$ 32,182           |
| Asia/Pacific        | 6,248                | 5,437               | 12,553               | 11,784              |
| Europe              | 12,175               | 12,305              | 23,665               | 23,042              |
| Latin America       | 2,574                | 2,320               | 4,771                | 4,767               |
| Other               | 143                  | 105                 | 212                  | 478                 |
| Total               | \$ 35,436            | \$ 36,603           | \$ 69,693            | \$ 72,253           |
| Gross Profit (loss) |                      |                     |                      |                     |
| North America       | \$ 4,687             | \$ 5,520            | \$ 9,584             | \$ 10,809           |
| Asia/Pacific        | 2,144                | 1,860               | 4,089                | 4,054               |
| Europe              | 4,111                | 3,806               | 7,706                | 7,030               |
| Latin America       | 1,011                | 788                 | 1,834                | 1,616               |
| Other               | (946                 | ) (1,232            | ) (2,014             | ) (2,121            |
| Total               | \$ 11,007            | \$ 10,742           | \$ 21,199            | \$ 21,388           |

We sell our products to customers in diversified industries and perform periodic credit evaluations of our customers' financial condition. Terms are generally on open account, payable net 30 days in North America, and vary throughout Asia/Pacific, Europe, and Latin America. Estimates of credit losses are recorded in the financial statements based on monthly reviews of outstanding accounts. Other primarily includes net sales not allocated to a specific geographical region, unabsorbed value-add costs, and other unallocated expenses.

**13. LITIGATION**

We are involved in several pending judicial proceedings concerning matters arising in the ordinary course of business. While the outcome of litigation is subject to uncertainties, based on information available at the time the financial statements were issued, we determined disclosure of contingencies relating to any of our pending judicial proceedings was not necessary because there was less than a reasonable possibility that a material loss had been incurred.

During the first quarter of fiscal 2014, we received a settlement in the amount of \$2.1 million related to an anti-trust class action lawsuit settlement. The settlement was recorded as proceeds from legal settlement within the Other Income section of our Consolidated Statements of Comprehensive Income.

**14. FAIR VALUE MEASUREMENTS**

ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

As of November 30, 2013, we held investments that are required to be measured at fair value on a recurring basis. Our investments consist of time deposits and CDs, which face value is equal to fair value, and equity securities of publicly traded companies for which market prices are readily available.

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Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of November 30, 2013, and June 1, 2013, were as follows (in thousands):

|                   | Level 1  |
|-------------------|----------|
| November 30, 2013 |          |
| Time deposits/CDs | \$41,008 |
| Equity securities | 491      |
| Total             | \$41,499 |
| June 1, 2013      |          |
| Time deposits/CDs | \$43,989 |
| Equity securities | 443      |
| Total             | \$44,432 |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this report may constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms "may," "should," "could," "anticipate," "believe," "continues," "estimate," "expect," "intend," "objective," "plan," "potential," "project" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A, of our Annual Report on Form 10-K filed on July 26, 2013. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

In addition, while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not our responsibility.

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial condition, critical accounting policies and estimates, and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes appearing elsewhere in this filing. This section is organized as follows:

Business Overview

Results of Continuing Operations – an analysis and comparison of our consolidated results of operations for the three and six months ended November 30, 2013, and December 1, 2012, as reflected in our consolidated statements of comprehensive income.

Liquidity, Financial Position, and Capital Resources – a discussion of our primary sources and uses of cash for the three and six months ended November 30, 2013, and December 1, 2012, and a discussion of changes in our financial position.

Business Overview

Richardson Electronics, Ltd. ("we", "us", "the Company", and "our") is incorporated in the state of Delaware. We are a leading global provider of engineered solutions, power grid and microwave tubes and related components, and customized display solutions, serving customers in the alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. Our strategy is to provide specialized technical expertise and "engineered solutions" based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair.

Our products include electron tubes and related components, microwave generators, subsystems used in semiconductor manufacturing, and visual technology solutions. These products are used to control, switch or amplify electrical power signals, or are used as display devices in a variety of industrial, commercial, medical, and communication applications.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. ("D and C") for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the broadcast, commercial, industrial, medical, military, and scientific markets. This acquisition provides us with access to additional product lines, vendors, and customers.



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On July 5, 2013, we acquired the assets of WVS-Technology ("WVS") for approximately \$1.0 million. WVS, located in Meerbusch, Germany, develops and sells RF and microwave products, power grid tubes, vacuum capacitors, as well as industrial microwave equipment. This acquisition provides us with engineering and sales expertise to help expand our presence in the vacuum capacitor market.

We have two operating segments, which we define as follows:

Electron Device Group ("EDG") provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and medical original equipment manufacturer ("OEM") markets.

We currently have operations in the following major geographic regions:

- North America;
- Asia/Pacific;
- Europe; and
- Latin America.

RESULTS OF CONTINUING OPERATIONS

FINANCIAL SUMMARY – THREE MONTHS ENDED NOVEMBER 30, 2013

Net sales for the second quarter of fiscal 2014 were \$35.4 million, down 3.2%, compared to net sales of \$36.6 million during the second quarter of fiscal 2013.

Gross margin increased to 31.1% during the second quarter of fiscal 2014 compared to 29.3% during the second quarter of fiscal 2013.

Selling, general, and administrative expenses increased slightly to \$10.5 million, or 29.6% of net sales, for the second quarter of fiscal 2014 compared to \$10.2 million for the second quarter of fiscal 2013, or 27.9% of net sales, respectively.

Operating income during the second quarter of fiscal 2014 and fiscal 2013 was \$0.5 million, or 1.5% and 1.4% of net sales, respectively.

Income from continuing operations during the second quarter of fiscal 2014 and fiscal 2013 was \$0.6 million, or \$0.04 per diluted common share.

Loss from discontinued operations, net of tax, was \$0.1 million during the second quarter of fiscal 2014 compared to \$0.2 million during the second quarter of fiscal 2013.

Net income during the second quarter of fiscal 2014 was \$0.5 million, or \$0.03 per diluted common share, compared to net income of \$0.4 million, or \$0.03 per diluted common share, during the second quarter of fiscal 2013.

FINANCIAL SUMMARY – SIX MONTHS ENDED NOVEMBER 30, 2013

Net sales for the first six months of fiscal 2014 were \$69.7 million, down 3.5%, compared to net sales of \$72.3 million during the first six months of fiscal 2013.

Gross margin increased to 30.4% during the first six months of fiscal 2014, compared to 29.6% during the first six months of fiscal 2013.

Selling, general, and administrative expenses increased slightly to \$20.5 million, or 29.5% of net sales, for the first six months of fiscal 2014, compared to \$20.4 million, or 28.2% of net sales, for the first six months of fiscal 2013.

Operating income during the first six months of fiscal 2014 was \$0.7 million, or 0.9% of net sales, compared to an operating income of \$1.0 million, or 1.4% of net sales, during the first six months of fiscal 2013.



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Income from continuing operations during the first six months of fiscal 2014 was \$2.6 million, or \$0.18 per diluted common share, versus \$1.3 million, or \$0.08 per diluted common share, during the first six months of fiscal 2013.

Loss from discontinued operations, net of tax, was \$0.1 million, during the first six months of fiscal 2014, compared to \$0.3 million during the first six months of fiscal 2013.

Net income during the first six months of fiscal 2014 was \$2.5 million, or \$0.17 per diluted common share, compared to net income of \$1.0 million during the first six months of fiscal 2013, or \$0.06 per diluted common share.

## Net Sales and Gross Profit Analysis

Net sales by segment and percent change for the second quarter and first six months of fiscal 2014 and 2013 were as follows (in thousands):

| Net Sales | QTD               |                  | FY14 vs. FY13<br>% Change |
|-----------|-------------------|------------------|---------------------------|
|           | November 30, 2013 | December 1, 2012 |                           |
| EDG       | \$26,163          | \$26,186         | (0.1)%                    |
| Canvys    | 9,273             | 10,417           | (11.0)%                   |
| Total     | \$35,436          | \$36,603         | (3.2)%                    |
|           | YTD               |                  |                           |
|           | November 30, 2013 | December 1, 2012 | % Change                  |
| EDG       | \$51,642          | \$51,813         | (0.3)%                    |
| Canvys    | 18,051            | 20,440           | (11.7)%                   |
| Total     | \$69,693          | \$72,253         | (3.5)%                    |

During the second quarter of fiscal 2014 consolidated net sales decreased 3.2% compared to the second quarter of fiscal 2013. Sales for Canvys declined by 11.0% and sales for EDG declined 0.1%. During the first six months of fiscal 2014 consolidated net sales decreased 3.5% compared to the first six months of fiscal 2013. Sales for Canvys declined by 11.7% and sales for EDG declined 0.3%.

Gross profit by segment and percent of segment net sales for the second quarter and first six months of fiscal 2014 and 2013 were as follows (in thousands):

| Gross Profit | QTD               |                | December 1, 2012 | % of Net Sales |
|--------------|-------------------|----------------|------------------|----------------|
|              | November 30, 2013 | % of Net Sales |                  |                |
| EDG          | \$8,507           | 32.5%          | \$7,930          | 30.3%          |
| Canvys       | 2,500             | 27.0%          | 2,812            | 27.0%          |
| Total        | \$11,007          | 31.1%          | \$10,742         | 29.3%          |
|              | YTD               |                |                  |                |
|              | November 30, 2013 | % of Net Sales | December 1, 2012 | % of Net Sales |
| EDG          | \$16,366          | 31.7%          | \$15,930         | 30.7%          |
| Canvys       | 4,833             | 26.8%          | 5,458            | 26.7%          |
| Total        | \$21,199          | 30.4%          | \$21,388         | 29.6%          |

Gross profit reflects the distribution and manufacturing product margin less manufacturing variances, inventory obsolescence charges, customer returns, scrap and cycle count adjustments, engineering costs, unabsorbed manufacturing labor and overhead, and other provisions.

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Consolidated gross profit was \$11.0 million during the second quarter of fiscal 2014, compared to \$10.7 million during the second quarter of fiscal 2013. Consolidated gross margin as a percentage of net sales increased to 31.1% during the second quarter of fiscal 2014, from 29.3% during the second quarter of fiscal 2013. In addition, gross margin included \$0.1 million related to unabsorbed manufacturing labor and overhead from continuing operations during the second quarter of fiscal 2014, compared to \$0.3 million during the second quarter of fiscal 2013.

Consolidated gross profit was \$21.2 million during the first six months of fiscal 2014, compared to \$21.4 million during the first six months of fiscal 2013. Consolidated gross margin as a percentage of net sales increased to 30.4% during the first six months of fiscal 2014, from 29.6% during the first six months of fiscal 2013. In addition, gross margin included \$0.3 million related to unabsorbed manufacturing labor and overhead from continuing operations during the first six months of fiscal 2014, compared to \$0.5 million during the first six months of fiscal 2013.

Electron Device Group

Net sales for EDG remained flat at \$26.2 million during the second quarter of fiscal 2014, compared to the second quarter of fiscal 2013. Net sales of tubes grew in the industrial heating and laser markets but were offset by declines primarily in the broadcast and aviation markets. Gross margin as a percentage of net sales increased to 32.5% during the second quarter of fiscal 2014, as compared to 30.3% during the second quarter of fiscal 2013 primarily due to efficiency gains in manufacturing as well as shifts in product and geographic mix.

Net sales for EDG were \$51.6 million during the first six months of fiscal 2014, compared to \$51.8 million during the first six months of fiscal 2013. Net sales of tubes improved in the industrial heating, laser and marine markets, but declined primarily in the broadcast and aviation markets. Gross margin as a percentage of net sales increased to 31.7% during the first six months of fiscal 2014, as compared to 30.7% during the first six months of fiscal 2013 primarily due to shifts in product and geographic mix.

Canvys

Canvys net sales decreased 11.0% to \$9.3 million during the second quarter of fiscal 2014, from \$10.4 million during the second quarter of fiscal 2013. Sales were down in our North America Healthcare market driven by the uncertainty surrounding health care reform and a difficult capital market for hospitals while sales in our North America OEM market were down due to rescheduled deliveries to key accounts partially offset by new programs and customers.

Gross margin as a percentage of net sales stabilized at 27.0% during the second quarters of fiscal 2014 and 2013. Canvys net sales decreased 11.7% to \$18.1 million during the first six months of fiscal 2014, from \$20.4 million during the first six months of fiscal 2013. Sales were down in our North America Healthcare market driven by the uncertainty surrounding health care reform and a difficult capital market for hospitals. In addition, sales in our North America OEM market were down due to rescheduled deliveries to key accounts partially offset by sales to new customers. Gross margin as a percentage of net sales increased slightly to 26.8% during the first six months of fiscal 2014 as compared to 26.7% during the first six months of fiscal 2013 due to the higher margin business in Europe as well as currency fluctuations and a reduction in freight expense.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (“SG&A”) slightly increased to \$10.5 million during the second quarter of fiscal 2014 compared to \$10.2 million during the second quarter of fiscal 2013. The increase includes a \$0.6 million increase of total company support function costs offset by a \$0.1 million reduction of SG&A for EDG and a \$0.2 million reduction of SG&A for Canvys. SG&A as a percentage of sales from continuing operations increased to 29.6% during the second quarter of fiscal 2014 from 27.9% during the second quarter of fiscal 2013.

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Selling, general, and administrative expenses ("SG&A") remained relatively flat at \$20.5 million during the first six months of fiscal 2014 compared to \$20.4 million during the first six months of fiscal 2013. The increase includes a \$0.6 million increase of total company support function costs offset by a \$0.1 million reduction of SG&A for EDG and a \$0.4 million reduction of SG&A for Canvys. SG&A as a percentage of sales from continuing operations increased to 29.5% during the first six months of fiscal 2014 from 28.2% during the first six months of fiscal 2013.

**Other Income/Expense**

Other income/expense was income of \$0.3 million during the second quarter of fiscal 2014, compared to income of \$0.1 million during the second quarter of fiscal 2013. The \$0.3 million in the second quarter of fiscal 2014 was primarily due to investment income. The \$0.1 million in fiscal 2013 was comprised of investment income of \$0.4 million offset by a foreign exchange loss of \$0.3 million. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other income/expense was income of \$2.6 million during the first six months of fiscal 2014, compared to income of \$0.5 million during the first six months of fiscal 2013. Other income/expense during the first six months of fiscal 2014 included an anti-trust class action lawsuit settlement of \$2.1 million and investment income of \$0.5 million, partially offset by foreign exchange loss of less than \$0.1 million. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

**Income Tax Provision**

The effective income tax rate from continuing operations during the first six months of fiscal 2014 was 18.8%, as compared to 15.3% during the first six months of fiscal 2013. The increase in rate during the first six months of fiscal 2014, as compared to fiscal 2013, was due to an increase in the amount of foreign earnings not considered to be permanently reinvested and an increase in forecasted earnings available in foreign jurisdictions for distribution with respect to ASC 740-30, Income Taxes – Other Considerations or Special Areas ("ASC 740-30"). The 18.8% effective income tax rate is lower than the federal statutory rate of 34.0% as a result of our geographical distribution of income and apportionment of income to various states. Additionally, during the second quarter of fiscal 2014, we developed a strategy for the recently acquired German business to pursue increased market opportunities in Germany; therefore, we have changed our position with respect to earnings in Germany which are now considered to be permanently reinvested under ASC 740-30. This change in the Company's assertion further reduced the effective tax rate for the first six months of fiscal 2014 by 7.6%.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2006 are closed for examination under the statute of limitation for U.S. federal, state or local, or non-U.S. tax jurisdictions. During fiscal 2013, we completed federal audits in the U.S. for fiscal 2009, 2010, and 2011. Our primary foreign tax jurisdictions are the Netherlands and Germany. We have tax years open in the Netherlands and Germany beginning in fiscal 2008.

As of November 30, 2013, approximately \$42.8 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30. Due to various tax attributes that are continuously changing, it is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of November 30, 2013, we did not have any worldwide liability for uncertain tax positions related to continuing operations as compared to \$0.4 million as of December 1, 2012. Therefore, we have not recorded penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is not expected that there will be a change in the unrecognized tax benefits within the next 12 months.

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## Discontinued Operations

## Financial Summary – Discontinued Operations

Summary financial results for the three months ended November 30, 2013, and December 1, 2012, are presented in the following table (in thousands):

|                                               | Three Months Ended   |                     | Six Months Ended     |                     |
|-----------------------------------------------|----------------------|---------------------|----------------------|---------------------|
|                                               | November 30,<br>2013 | December 1,<br>2012 | November 30,<br>2013 | December 1,<br>2012 |
| Net sales                                     | \$ 178               | \$ 278              | \$ 264               | \$ 499              |
| Gross profit (loss) <sup>(1)</sup>            | (55                  | ) (128              | ) (103               | ) (221              |
| Selling, general, and administrative expenses | 117                  | 201                 | 149                  | 266                 |
| Other expense                                 | —                    | 1                   | 1                    | 1                   |
| Income tax benefit                            | (65                  | ) (127              | ) (135               | ) (198              |
| Loss from discontinued operations, net of tax | \$(107               | ) \$(203            | ) \$(118             | ) \$(290            |

## Notes:

(1) Gross profit (loss) for fiscal year 2014 and 2013 includes unabsorbed manufacturing labor and overhead expenses related to the Manufacturing Agreement with RFPD.

Assets and liabilities classified as discontinued operations on our consolidated balance sheets as of November 30, 2013, and June 1, 2013, include the following (in thousands):

|                                       | November 30, 2013 | June 1, 2013 |
|---------------------------------------|-------------------|--------------|
| Inventories                           | \$ 356            | \$ 303       |
| Discontinued operations - Assets      | \$ 356            | \$ 303       |
| Accrued liabilities - current         | \$ —              | \$ 245       |
| Discontinued operations - Liabilities | \$ —              | \$ 245       |

In accordance with ASC 230, Statement of Cash Flows, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flow information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. We did not have cash balances that were specific to RFPD and elected not to present separate cash flows from discontinued operations on our statement of cash flows.

## Net Income and Per share Data

Net income during the second quarter of fiscal 2014 was \$0.5 million, or \$0.03 per diluted common share and \$0.03 per Class B diluted common share, as compared to net income of \$0.4 million during the second quarter of fiscal 2013, or \$0.03 per diluted common share and \$0.02 per Class B diluted common share.

Net income during the first six months of fiscal 2014 was \$2.5 million, or \$0.17 per diluted common share and \$0.16 per Class B diluted common share, as compared to net income of \$1.0 million during the first six months of fiscal 2013, or \$0.06 per diluted common share and \$0.06 per Class B diluted common share.



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LIQUIDITY, FINANCIAL POSITION, AND CAPITAL RESOURCES

Our cash needs have been primarily financed through current and prior year earnings. Cash and cash equivalents for the first quarter ended November 30, 2013, were \$92.6 million. In addition, CDs and time deposits classified as short-term investments were \$39.5 million and long-term investments were \$2.0 million, including equity securities of \$0.5 million. Cash and investments at November 30, 2013, consisted of \$72.4 million in North America, \$20.1 million in Europe, \$0.7 million in Latin America, and \$40.9 million in Asia/Pacific. At June 1, 2013, cash and cash equivalents were \$102.0 million. In addition, CDs and time deposits classified as short-term investments were \$39.0 million and long-term investments were \$5.4 million, including equity securities of \$0.4 million. Cash and investments at June 1, 2013, consisted of \$82.1 million in North America, \$22.1 million in Europe, \$1.2 million in Latin America, and \$41.0 million in Asia/Pacific.

Cash Flows from Discontinued Operations

In accordance with ASC 230, Statement of Cash Flows, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flow information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation.

We believe we will continue to have sufficient liquidity to fund our future growth strategies for our business in the foreseeable future.

Cash Flows from Operating Activities

The cash flow from operating activities primarily resulted from our net income, adjusted for non-cash items, and changes in our operating assets and liabilities.

Operating activities, which include our discontinued operations, used \$0.9 million of cash during the first six months of fiscal 2014. We had net income of \$2.5 million during the first six months of fiscal 2014, which included non-cash stock-based compensation expense of \$0.4 million associated with the issuance of stock option awards and depreciation and amortization expense of \$0.5 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, used \$4.2 million of cash during the first six months of fiscal 2014, due primarily to the increase in our inventory of \$0.1 million, a decrease in our accounts payable of \$2.2 million, and an increase in our accounts receivable of \$1.7 million, partially offset by a decrease in our long-term tax liabilities of \$0.5 million. The increase in our inventory was due to an increase in purchases related to specific projects within our Canvys business. The decrease in our accounts payable relates primarily to the timing of payments to some of our major suppliers. The increase in our accounts receivables of \$1.7 million was due primarily to a slight increase in our day sales outstanding caused primarily by a shift in customer mix by geography.

Operating activities, which include our discontinued operations, provided \$2.9 million of cash during the first six months of fiscal 2013. We had net income of \$1.0 million in the first six months of fiscal 2013, which included non-cash stock-based compensation expense of \$0.3 million associated with the issuance of stock option awards and depreciation and amortization expense of \$0.6 million associated with our investments in property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, provided \$1.0 million of cash during the first six months of fiscal 2013, due primarily to the decrease in our inventory of \$1.7 million, increase in our accounts payable of \$1.2 million, partially offset by an increase in our accounts receivable of \$1.4 million, and an increase to our prepaid expense of \$0.4 million. The decrease in our inventory was the result of reduced inventory purchases during the first six months due to the decline in net sales. The increase in accounts payable of \$1.2 million was due primarily to an increase in accrued vouchers of \$0.6 million and \$0.6 million related to re-classes of customer credit balances in accounts receivable to accounts payable. The increase in our accounts receivable of \$1.4 million was due primarily to the timing of customer payments and a \$0.6 million reclass of customer credit balances to accounts payable. The increase in prepaid expenses of \$0.4 million was due primarily to the renewal of our liability insurance coverage.



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Cash Flows from Investing Activities

The cash flow from investing activities has consisted primarily of purchases and maturities of investments and capital expenditures.

Cash provided by investing activities of \$1.1 million during the first six months of fiscal 2014 included proceeds from the maturities of investments of \$54.5 million, offset by the purchase of investments of \$51.6 million, \$1.0 million for the acquisition of WVS, and \$1.0 million in capital expenditures.

Cash provided by investing activities of \$18.8 million during the first six months of fiscal 2013, included proceeds from maturities of investments of \$97.5 million, offset by the purchase of investments of \$75.6 million, \$2.6 million for the acquisition of D and C, and \$0.6 million in capital expenditures.

Our purchases and proceeds from investments consist of time deposits and CDs. Purchasing of future investments may vary from period to period due to interest and foreign currency exchange rates.

Cash Flows from Financing Activities

The cash flow from financing activities primarily consists of repurchases of common stock and cash dividends paid.

Cash used in financing activities of \$10.2 million during the first six months of fiscal 2014 resulted from \$8.7 million of cash used to repurchase common stock under our share repurchase authorization and \$1.7 million of cash used to pay dividends, offset by \$0.2 million of proceeds from the issuance of common stock.

Cash used in financing activities of \$13.3 million during the first six months of fiscal 2013, resulted from \$11.6 million of cash used to repurchase common stock and \$1.8 million in dividends paid, offset by \$0.1 million of proceeds from the issuance of common stock. The repurchase of common stock relates to our share repurchase authorizations.

All payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions, and other factors that the Board may deem relevant.

We believe that the existing sources of liquidity, including current cash, will provide sufficient resources to meet known capital requirements and working capital needs for the fiscal year ending May 31, 2014.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Risk Management and Market Sensitive Financial Instruments**

We are exposed to many different market risks with the various industries we serve. The primary financial risk we are exposed to is foreign currency exchange, as certain operations, assets, and liabilities of ours are denominated in foreign currencies. We manage these risks through normal operating and financing activities.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended June 1, 2013, filed July 26, 2013.

**ITEM 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of November 30, 2013.

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

**(b) Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the first six months of fiscal 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time we or our subsidiaries are involved in legal actions that arise in the ordinary course of our business. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any current claims, including the above mentioned legal matters, will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 1, 2013, filed July 26, 2013.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

| Period Ended       | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Amount of Shares Purchased Under the Plans or Programs | Amounts Remaining Under the Share Repurchase Authorization |
|--------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------|
| June 1, 2013       |                                  |                              |                                                                                  |                                                               | \$27,308,893                                               |
| June 29, 2013      | 95,441                           | \$ 11.81                     | 95,441                                                                           | \$ 1,127,610                                                  | \$26,181,283                                               |
| July 27, 2013      | 56,429                           | \$ 11.86                     | 56,429                                                                           | \$ 669,439                                                    | \$25,511,844                                               |
| August 31, 2013    | 426,195                          | \$ 11.50                     | 426,195                                                                          | \$ 4,902,732                                                  | \$20,609,112                                               |
| September 28, 2013 | 91,499                           | \$ 11.36                     | 91,499                                                                           | \$ 1,039,257                                                  | \$19,569,855                                               |
| October 26, 2013   | 81,494                           | \$ 11.45                     | 81,494                                                                           | \$ 933,276                                                    | \$18,636,579                                               |
| November 30, 2013  | 4,518                            | \$ 11.58                     | 4,518                                                                            | \$ 52,316                                                     | \$18,584,263                                               |
| TOTAL              | 755,576                          | \$ 11.55                     | 755,576                                                                          | \$ 8,724,630                                                  |                                                            |

## ITEM 5. OTHER INFORMATION

## Results of Operation and Financial Condition and Declaration of Dividend

On January 9, 2014, we issued a press release reporting results for our second quarter and first six months ended November 30, 2013, and the declaration of a cash dividend. A copy of the press release is furnished as Exhibit 99.1 to this Form 10-Q and incorporated by reference herein.

## ITEM 6. EXHIBITS

See exhibit index which is incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RICHARDSON ELECTRONICS, LTD.

Date: January 9, 2014

By:

Kathleen S. Dvorak  
Chief Financial Officer

(on behalf of the Registrant and  
as Principal Financial Officer)

Exhibit Index

(c) EXHIBITS

| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Restated Certificate of Incorporation of the Company, incorporated by reference to Appendix B to the Proxy Statement / Prospectus dated November 13, 1986, incorporated by reference to the Company's Registration Statement on Form S-4.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 3.2            | Amended and Restated By-Laws of the Company, incorporated by reference to Exhibit 3.2 on the Company's Report on Form 10-Q for the quarterly period ended December 3, 2011.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 31.1           | Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 31.2           | Certification of Kathleen S. Dvorak pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 32             | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 99.1           | Press release dated January 8, 2014.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 101            | The following financial information from our Quarterly Report on Form 10-Q for the second quarter and first six months of fiscal 2014, filed with the SEC on January 9, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of November 30, 2013, and June 1, 2013, (ii) the Unaudited Consolidated Statements of Comprehensive Income for the three and six months ended November 30, 2013, and December 1, 2012, (iii) the Unaudited Consolidated Statements of Cash Flows for the three and six months ended November 30, 2013, and December 1, 2012, (iv) the Unaudited Consolidated Statement of Stockholder's Equity as of November 30, 2013, and (v) Notes to Unaudited Consolidated Financial Statements. |