

RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
April 12, 2012
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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 March 3, 2012

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.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

36-2096643
(I.R.S. Employer

incorporation or organization)

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 April 9, 2012, there were outstanding 13,802,486 shares of Common Stock, \$0.05 par value and 2,939,961 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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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Richardson Electronics, Ltd.****Unaudited Consolidated Balance Sheets***(in thousands, except per share amounts)*

| | March 3, 2012 | May 28, 2011 |
|--|--------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,430 | \$ 170,975 |
| Accounts receivable, less allowance of \$584 and \$438 | 22,937 | 22,374 |
| Inventories | 38,339 | 30,853 |
| Prepaid expenses and other assets | 1,229 | 5,768 |
| Deferred income taxes | 1,940 | 2,084 |
| Income tax receivable | 4,810 | |
| Investments current | 130,030 | 52,116 |
| Discontinued operations assets | 626 | 4,018 |
| Total current assets | 224,341 | 288,188 |
| Non-current assets: | | |
| Property, plant and equipment, net | 4,491 | 5,216 |
| Goodwill | 1,761 | |
| Non-current deferred income taxes | 1,829 | 3,994 |
| Investments non-current | 14,765 | 16,656 |
| Total non-current assets | 22,846 | 25,866 |
| Total assets | \$ 247,187 | \$ 314,054 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 14,385 | \$ 17,814 |
| Accrued liabilities | 9,573 | 43,719 |
| Discontinued operations liabilities | 113 | 15,897 |
| Total current liabilities | 24,071 | 77,430 |
| Non-current liabilities: | | |
| Long-term income tax liabilities | 8,618 | 12,568 |
| Other non-current liabilities | 1,200 | 387 |
| Discontinued operations non-current liabilities | 1,233 | 1,622 |
| Total non-current liabilities | 11,051 | 14,577 |
| Total liabilities | 35,122 | 92,007 |
| Commitments and contingencies | | |

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| | | |
|---|-------------------|-------------------|
| Stockholders' equity | | |
| Common stock, \$0.05 par value; issued 13,953 shares at March 3, 2012, and 14,921 shares at May 28, 2011 | 698 | 746 |
| Class B common stock, convertible, \$0.05 par value; issued 2,940 shares at March 3, 2012, and 2,952 shares at May 28, 2011 | 147 | 147 |
| Preferred stock, \$1.00 par value, no shares issued | | |
| Additional paid-in-capital | 98,849 | 112,179 |
| Common stock in treasury, at cost, 11 shares at March 3, 2012, and 112 shares at May 28, 2011 | (140) | (1,493) |
| Retained earnings | 102,217 | 98,927 |
| Accumulated other comprehensive income | 10,294 | 11,541 |
| Total stockholders' equity | 212,065 | 222,047 |
| Total liabilities and stockholders' equity | \$ 247,187 | \$ 314,054 |

Table of Contents**Richardson Electronics, Ltd.****Unaudited Consolidated Statements of Income****and Comprehensive Income***(in thousands, except per share amounts)*

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|------------------------------|--------------------------|------------------------------|
| | March 3, 2012 | February 26, 2011 | March 3, 2012 | February 26, 2011 |
| Statements of Income | | | | |
| Net sales | \$ 38,330 | \$ 39,653 | \$ 118,979 | \$ 118,143 |
| Cost of sales | 27,033 | 28,096 | 83,290 | 83,400 |
| Gross profit | 11,297 | 11,557 | 35,689 | 34,743 |
| Selling, general, and administrative expenses | 9,457 | 10,733 | 30,202 | 32,476 |
| Loss (gain) on disposal of assets | (3) | 1 | (73) | 3 |
| Operating income | 1,843 | 823 | 5,560 | 2,264 |
| Other (income) expense: | | | | |
| Interest expense | | 39 | | 145 |
| Investment/interest income | (357) | | (1,003) | |
| Foreign exchange (gain) loss | (19) | 27 | 276 | 343 |
| Loss on retirement of short-term debt | | | | 60 |
| Other, net | (8) | 4 | (9) | (67) |
| Total other (income) expense | (384) | 70 | (736) | 481 |
| Income from continuing operations before income taxes | 2,227 | 753 | 6,296 | 1,783 |
| Income tax provision | 636 | 523 | 2,047 | 933 |
| Income from continuing operations | 1,591 | 230 | 4,249 | 850 |
| Income (loss) from discontinued operations, net of tax | (252) | 7,987 | 1,551 | 23,202 |
| Net income | \$ 1,339 | \$ 8,217 | \$ 5,800 | \$ 24,052 |
| Net income per Common share Basic: | | | | |
| Income from continuing operations | \$ 0.10 | \$ 0.01 | \$ 0.25 | \$ 0.05 |
| Income (loss) from discontinued operations | (0.02) | 0.45 | 0.09 | 1.32 |
| Total net income per Common share Basic: | \$ 0.08 | \$ 0.46 | \$ 0.34 | \$ 1.37 |
| Net income per Class B common share Basic: | | | | |
| Income from continuing operations | \$ 0.09 | \$ 0.01 | \$ 0.23 | \$ 0.04 |
| Income (loss) from discontinued operations | (0.01) | 0.40 | 0.08 | 1.19 |
| Total net income per Class B common share Basic: | \$ 0.08 | \$ 0.41 | \$ 0.31 | \$ 1.23 |
| Net income per Common share Diluted: | | | | |
| Income from continuing operations | \$ 0.09 | \$ 0.01 | \$ 0.25 | \$ 0.05 |
| Income (loss) from discontinued operations | (0.01) | 0.43 | 0.09 | 1.28 |

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Total net income per Common share Diluted: | \$ 0.08 | \$ 0.44 | \$ 0.34 | \$ 1.33 |
|---|----------------|----------------|----------------|----------------|

Net income per Class B common share Diluted:

| | | | | |
|--|---------|---------|---------|---------|
| Income from continuing operations | \$ 0.09 | \$ 0.01 | \$ 0.23 | \$ 0.04 |
| Income (loss) from discontinued operations | (0.01) | 0.40 | 0.08 | 1.17 |

| | | | | |
|---|----------------|----------------|----------------|----------------|
| Total net income per Class B common share Diluted: | \$ 0.08 | \$ 0.41 | \$ 0.31 | \$ 1.21 |
|---|----------------|----------------|----------------|----------------|

Weighted average number of shares:

| | | | | |
|---------------------|--------|--------|--------|--------|
| Common shares Basic | 13,988 | 15,086 | 14,134 | 14,846 |
|---------------------|--------|--------|--------|--------|

| | | | | |
|-----------------------------|-------|-------|-------|-------|
| Class B common shares Basic | 2,940 | 3,002 | 2,944 | 3,026 |
|-----------------------------|-------|-------|-------|-------|

| | | | | |
|-----------------------|--------|--------|--------|--------|
| Common shares Diluted | 17,050 | 18,455 | 17,244 | 18,182 |
|-----------------------|--------|--------|--------|--------|

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Class B common shares Diluted | 2,940 | 3,002 | 2,944 | 3,026 |
|-------------------------------|-------|-------|-------|-------|

| | | | | |
|-----------------------------------|----------------|-----------------|-----------------|-----------------|
| Dividends per common share | \$ 0.05 | \$ 0.020 | \$ 0.150 | \$ 0.060 |
|-----------------------------------|----------------|-----------------|-----------------|-----------------|

| | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| Dividends per Class B common share | \$ 0.045 | \$ 0.018 | \$ 0.135 | \$ 0.054 |
|---|-----------------|-----------------|-----------------|-----------------|

Statements of Comprehensive Income

| | | | | |
|--|----------|----------|----------|-----------|
| Net income | \$ 1,339 | \$ 8,217 | \$ 5,800 | \$ 24,052 |
| Foreign currency translation gain (loss) | (23) | 1,852 | (1,228) | 6,291 |
| Fair value adjustments on investments | 32 | 32 | (19) | 61 |

| | | | | |
|-----------------------------|-----------------|------------------|-----------------|------------------|
| Comprehensive income | \$ 1,348 | \$ 10,101 | \$ 4,553 | \$ 30,404 |
|-----------------------------|-----------------|------------------|-----------------|------------------|

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|------------------------------|--------------------------|------------------------------|
| | March 3, 2012 | February 26, 2011 | March 3, 2012 | February 26, 2011 |
| Operating activities: | | | | |
| Net income | \$ 1,339 | \$ 8,217 | \$ 5,800 | \$ 24,052 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 256 | 283 | 820 | 1,668 |
| Loss on retirement of short-term debt | | | | 60 |
| Loss (gain) on sale of investments | 10 | (4) | 11 | (5) |
| Stock compensation expense | 131 | 69 | 393 | 377 |
| Current and non-current deferred income taxes | 450 | 1,343 | 2,265 | 1,312 |
| Accounts receivable | (690) | (8,676) | (754) | (19,888) |
| Income tax receivable | 774 | | (4,810) | |
| Inventories | (2,683) | (10,240) | (8,275) | (20,256) |
| Prepaid expenses and other assets | 162 | 612 | 8,588 | (1,092) |
| Accounts payable | (144) | 2,062 | (3,228) | 8,713 |
| Accrued liabilities | (6,664) | (1,253) | (49,530) | 768 |
| Long-term income tax liabilities | 1,634 | 14 | (5,381) | 14 |
| Other | (141) | (2,183) | 1,537 | (2,244) |
| Net cash used in operating activities | (5,566) | (9,756) | (52,564) | (6,521) |
| Investing activities: | | | | |
| Cash consideration paid for acquired business | | | (2,297) | |
| Capital expenditures | (8) | (22) | (82) | (518) |
| Proceeds from time deposits/ CDs | 54,182 | | 123,119 | |
| Purchases of time deposits/ CDs | (47,439) | | (199,156) | |
| Proceeds from sales of available-for-sale securities | 62 | 42 | 183 | 125 |
| Purchases of available-for-sale securities | (62) | (42) | (183) | (125) |
| Other | (29) | (26) | 38 | (58) |
| Net cash provided by (used in) investing activities | 6,706 | (48) | (78,378) | (576) |
| Financing activities: | | | | |
| Proceeds from borrowings | | 72,200 | | 181,800 |
| Payments on debt | | (68,200) | | (159,800) |
| Payments on retirement of short-term debt | | | | (19,517) |
| Repurchase of common stock | (1,196) | | (13,084) | (162) |
| Proceeds from issuance of common stock | 298 | 2,302 | 660 | 4,073 |
| Cash dividends paid | (830) | (358) | (2,508) | (1,057) |
| Other | 3 | | 6 | |
| Net cash provided by (used in) financing activities | (1,725) | 5,944 | (14,926) | 5,337 |
| Effect of exchange rate changes on cash and cash equivalents | (167) | 690 | (677) | 2,585 |
| Increase (decrease) in cash and cash equivalents | (752) | (3,170) | (146,545) | 825 |

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| | | | | |
|---|------------------|------------------|------------------|------------------|
| Cash and cash equivalents at beginning of period | 25,182 | 33,033 | 170,975 | 29,038 |
| Cash and cash equivalents at end of period | \$ 24,430 | \$ 29,863 | \$ 24,430 | \$ 29,863 |

Table of Contents**Richardson Electronics, Ltd.****Unaudited Consolidated Statement of Stockholders' Equity***(in thousands)*

| | Common | Class B Common | Par Value | Additional Paid In Capital | Common Stock in Treasury | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Total |
|---------------------------------------|---------|-------------------|--------------|----------------------------------|--------------------------------|----------------------|---|------------|
| Balance May 28, 2011: | 14,921 | 2,952 | \$ 893 | \$ 112,179 | \$ (1,493) | \$ 98,927 | \$ 11,541 | \$ 222,047 |
| Net income | | | | | | 5,800 | | 5,800 |
| Foreign currency translation | | | | | | | (1,228) | (1,228) |
| Fair value adjustments on investments | | | | | | | (19) | (19) |
| Share-based compensation: | | | | | | | | |
| Stock options | | | | 393 | | | | 393 |
| Common stock: | | | | | | | | |
| Options exercised | 112 | | 5 | 734 | (79) | | | 660 |
| Cancelled shares | | (12) | | | | | | |
| Repurchase of common stock | | | | | (13,084) | | | (13,084) |
| Treasury stock | (1,093) | | (55) | (14,457) | 14,516 | | | 4 |
| Other | 13 | | 2 | | | (2) | | 0 |
| Dividends paid to: | | | | | | | | |
| Common (\$0.15 per share) | | | | | | (2,111) | | (2,111) |
| Class B (\$0.135 per share) | | | | | | (397) | | (397) |
| Balance March 3, 2012: | 13,953 | 2,940 | \$ 845 | \$ 98,849 | \$ (140) | \$ 102,217 | \$ 10,294 | \$ 212,065 |

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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 used as display devices in a variety of industrial, commercial, medical, and communication applications.

On March 1, 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, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) The final purchase price was subject to a post-closing working capital adjustment.

On June 29, 2011, we received notification from Arrow seeking a post-closing working capital adjustment, which would reduce the purchase price by approximately \$4.2 million. We recorded the working capital adjustment of \$4.2 million in our results from discontinued operations during our fourth quarter of fiscal 2011. During the first quarter of fiscal 2012, we agreed to approximately \$3.9 million of the proposed working capital adjustment and adjusted our results from discontinued operations during the first quarter. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a working capital adjustment of \$0.2 million related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. The company generated revenues of approximately \$2.0 million during its fiscal year ended May 31, 2011. This acquisition positions us to provide cost-effective distribution, installation and service of microwave and power grid tube equipment for communications, industrial, military and medical users around the world.

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. With the acquisition of Powerlink, 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 medical original equipment manufacturer (OEM) markets.

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

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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.

The audited consolidated balance sheet for the fiscal year ended May 28, 2011, has been restated to reflect the Transaction. Refer to Note 5 Discontinued Operations of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

Retained earnings and accrued liabilities within the audited consolidated balance sheet for the fiscal year ended May 28, 2011, have been restated to reflect an unrecorded misstatement. Refer to Note 3 Restatement of our notes to our unaudited consolidated financial statements for additional discussion on this unrecorded misstatement.

Our fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first nine months of fiscal 2012 and 2011 contained 40 and 39 weeks, respectively.

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. The results of our operations for the three and nine months ended March 3, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 2, 2012.

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 May 28, 2011, that we filed on July 22, 2011.

3. RESTATEMENT

During the second quarter of fiscal 2012, in connection with an ongoing IRS examination, we determined that a deduction taken on our fiscal year 2006 federal tax return was taken in error. As a result, the tax impact of the Net Operating Loss (NOL) carry forward from fiscal 2006 was overstated by approximately \$2.1 million. The NOL from fiscal 2006 was fully utilized and the reversal of all associated valuation allowances was recorded in our results from discontinued operations during fiscal 2011. The deferred tax asset related to the NOL was fully reserved prior to the fourth quarter of fiscal 2011.

The Securities and Exchange Commission (the SEC or Commission) Staff Accounting Bulletin 108 (SAB 108) provides guidance on quantifying and evaluating the materiality of errors. SAB 108 requires that a company considers the iron curtain and the rollover approach when quantifying misstatement amounts. Under the rollover approach, the error is quantified as the amount by which the current year income statement is misstated. The iron curtain approach quantifies the error using both a balance sheet and an income statement approach and evaluates whether either of these approaches results in quantifying a misstatement that is material, considering all relevant quantitative and qualitative factors.

Materiality was also assessed from a qualitative perspective based on whether it was probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. We do not believe the effect of this error would have changed or influenced the judgment of a reasonable person.

We have performed an analysis of this error using both the rollover and iron curtain methods and have concluded that this error is material to our current period's financial statements and immaterial to fiscal 2011 financial statements. Accordingly, we will restate our fiscal 2011 financial statements to correct the error in fiscal 2012 Form 10-K. This error did not impact the financial statements prior to fiscal 2011, as the NOL was fully reserved prior to the fourth quarter of fiscal 2011. During the second quarter of fiscal 2012, we recorded an entry to reduce our retained earnings and increase our discontinued liabilities by \$2.1 million to correct the error on the balance sheet.

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During the first nine months of fiscal 2012, the effect on retained earnings and net income were as follows (*in thousands*):

| | Effect on Retained Earnings | Effect on Net Income |
|--|--|-------------------------------------|
| Recording of prior year's income tax expense | \$ (2,126) | \$ |
| Income tax effect on the above | \$ | \$ |
| Net SAB 108 Effect | \$ (2,126) | \$ |

The understatement of our income tax accrual as of our fiscal year ended May 28, 2011, affected our consolidated balance sheet as follows (*in thousands*):

| | As Reported | Restated |
|--------------------------|--------------------|-----------------|
| Discontinued Liabilities | \$ 13,771 | \$ 15,897 |
| Retained Earnings | \$ 101,053 | \$ 98,927 |

The understatement of income tax expense for our fiscal year ended May 28, 2011, affected our consolidated statement of operations as follows (*in thousands, except per share data*):

| | As Reported | Restated |
|---|--------------------|-----------------|
| Income from discontinued operations, net of tax | \$ 88,092 | \$ 85,966 |
| Net Income | \$ 90,074 | \$ 87,948 |
| Income from discontinued operations per diluted share | \$ 4.84 | \$ 4.72 |
| Net Income per diluted share | \$ 4.95 | \$ 4.83 |

4. 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 included approximately \$34.7 million of finished goods and \$3.6 million of raw materials and work-in-progress as of March 3, 2012, as compared to approximately \$28.0 million of finished goods and \$2.9 million of raw materials and work-in-progress as of May 28, 2011.

At this time, we do not anticipate any material risks or uncertainties related to possible inventory write-downs for the remainder of the fiscal year 2012, ending June 2, 2012.

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 a limited number of cases, we provide and bill our customers with non-product related services, such as testing, calibration, non-recurring engineering, tooling, and installation services. We have concluded that, in the limited cases where remaining obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory. 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 minimal, 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 the service.

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Discontinued Operations: 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 5 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.

New Accounting Pronouncements: During December 2011, the FASB issued Accounting Standard Update (ASU) No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments to the Codification in ASU No. 2011-12 are effective at the same time as the amendments in ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring. In order to defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in ASU No. 2011-12 supersede certain pending paragraphs in ASU No. 2011-05. The amendments are being made to allow the FASB time to re-deliberate whether to present on the face of the financial statements the effects of the reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods with those years, beginning after December 15, 2011, and as such, we have adopted ASU No. 2011-05 during our third quarter of fiscal 2012.

5. DISCONTINUED OPERATIONS

Arrow Transaction

On March 1, 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, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) The final purchase price was subject to a post-closing working capital adjustment.

On June 29, 2011, we received notification from Arrow seeking a post-closing working capital adjustment, which would reduce the purchase price by approximately \$4.2 million. We recorded the working capital adjustment of \$4.2 million in our results from discontinued operations during our fourth quarter of fiscal 2011. During the first quarter of fiscal 2012, we agreed to approximately \$3.9 million of the proposed working capital adjustment and adjusted our results from discontinued operations during the first quarter of fiscal 2012. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

Table of Contents**Financial Summary Discontinued Operations**

Summary financial results for the three and nine months ended March 3, 2012, and February 26, 2011, are presented in the following table (*in thousands*):

| | Three Months | | Nine Months | |
|--|--------------|--------------|-------------|--------------|
| | Mar 3, 2012 | Feb 26, 2011 | Mar 3, 2012 | Feb 26, 2011 |
| Net sales | \$ 840 | \$ 104,593 | \$ 2,532 | \$ 313,013 |
| Gross profit (loss) | (44) | 22,836 | (418) | 67,156 |
| Selling, general, and administrative expenses | 312 | 14,119 | (110) | 41,883 |
| Interest expense, net | | 119 | | 387 |
| Foreign exchange loss | 65 | | 39 | |
| Additional gain on sale | | | (266) | |
| Income tax provision (benefit) | (169) | 611 | (1,632) | 1,684 |
| Income (loss) from discontinued operations, net of tax | \$ (252) | \$ 7,987 | \$ 1,551 | \$ 23,202 |

Net sales and gross profit (loss) for the three and nine months ended March 3, 2012, 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 for Arrow. Selling, general, and administrative expenses for the nine months ended March 3, 2012, reflect a benefit of \$0.1 million for adjustments recorded due to changes in our estimates related to liabilities for our discontinued operations. During the first quarter of fiscal 2012, in connection with an examination by the Internal Revenue Service, we reduced our deferred tax liability by \$2.1 million related to our un-repatriated foreign earnings based on a determination of the amount of earnings and profits remaining in certain foreign subsidiaries after the Arrow transaction. During the second quarter of fiscal 2012, we recorded approximately \$0.8 million of additional tax provision which represents return to provision adjustments and other tax adjustments. During the third quarter of fiscal 2012, we recorded approximately \$0.2 million of tax benefit primarily representing return to provision adjustments.

In accordance with ASC 205-20, the allocation of interest expense to discontinued operations of other consolidated interest that is not directly attributable to, or related to, other operations of the entity is permitted but not required. The consolidated interest that cannot be attributable to other operations of the entity is allocated based on the ratio of net assets to be sold or discontinued to the total consolidated net assets. We appropriately allocated approximately \$0.1 million and \$0.4 million of interest expense to discontinued operations for the three and nine months ended February 26, 2011, respectively, using the ratio of net assets that we sold or that became discontinued to total assets.

Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of March 3, 2012, and May 28, 2011, include the following (*in thousands*):

| | Mar 3, 2012 | May 28, 2011 |
|---|-----------------|------------------|
| Accounts receivable | \$ | \$ 2,356 |
| Inventories | 615 | 1,152 |
| Prepaid expenses and other assets | 11 | 110 |
| Current deferred income taxes | | 400 |
| Discontinued operations Assets | \$ 626 | \$ 4,018 |
| Accrued liabilities - current ⁽¹⁾ | \$ 113 | \$ 15,897 |
| Long-term income tax liabilities - non-current ⁽²⁾ | 1,233 | 1,622 |
| Discontinued operations Liabilities | \$ 1,346 | \$ 17,519 |

(1) Included in accrued liabilities as of March 3, 2012, is a payable to Arrow for cash collections of \$0.1 million.

(2)

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Included in long-term income tax liabilities non-current as of March 3, 2012, is the reserve for uncertain tax positions of \$1.4 million, offset by withholding tax of \$0.2 million related to our discontinued operations.

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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 flows 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 currently do not have cash balances that were specific to RFPD and as a result, we believe that it is appropriate not to present separate cash flows from discontinued operations on our statement of cash flows.

6. ACQUISITION OF POWERLINK

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a working capital adjustment of \$0.2 million related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. The company generated revenues of approximately \$2.0 million during its fiscal year ended May 31, 2011. This acquisition positions us to provide cost-effective distribution, installation and service of microwave and power grid tube equipment for communications, industrial, military and medical users around the world.

The preliminary allocation of the purchase price, recorded during our second quarter of fiscal 2012, included \$0.4 million of trade receivables, \$0.2 million of inventory, and \$1.7 million of goodwill. Pro forma financial information is not presented due to immateriality.

The goodwill recorded of \$1.7 million represents the excess of purchase price over the fair market value of the identifiable net assets we acquired. Beginning with our fourth quarter of fiscal year 2012, we will be testing our goodwill for impairment on an annual basis in accordance with Accounting Standards Update (ASU) No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. We do not expect the results of our impairment testing to have a material impact to our financial results for fiscal year 2012.

7. INVESTMENTS

As of March 3, 2012, we had approximately \$144.4 million invested in time deposits and certificate of deposits (CD). Of this, \$130.0 million mature in less than twelve months and \$14.4 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 \$0.4 million as of March 3, 2012, and as of May 28, 2011. Proceeds from the sale of securities were \$0.1 million during the third quarter of fiscal 2012 and first nine months of fiscal 2012 and fiscal 2011. Proceeds from the sale of securities were less than \$0.1 million during the third quarter of fiscal 2011. 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 third quarter and first nine months of fiscal 2012 and fiscal 2011. Net unrealized holding gains of less than \$0.1 million during the third quarter of fiscal 2012 and fiscal 2011, have been included in accumulated other comprehensive income. Net unrealized holding losses of less than \$0.1 million during the first nine months of fiscal 2012, have been included in accumulated other comprehensive income. Net unrealized holding gains of \$0.1 million during the first nine months of fiscal 2011, have been included in accumulated other comprehensive income.

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The following table presents the disclosure as required by ASC 320-10, *Investments – Debt and Equity Securities*, for the investment in marketable equity securities with fair values less than cost basis (*in thousands*):

| Description of Securities | Marketable Security Holding Length | | | | Total | |
|---------------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|---------------|----------------------|
| | Less Than 12 Months Fair Value | Unrealized Losses | More Than 12 Months Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| March 3, 2012 | | | | | | |
| Common Stock | \$ 19 | \$ 1 | \$ 2 | \$ 1 | \$ 21 | \$ 2 |
| May 28, 2011 | | | | | | |
| Common Stock | \$ 39 | \$ 1 | \$ 7 | \$ | \$ 46 | \$ 1 |

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 unaudited consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves, which are included in accrued liabilities on our unaudited consolidated balance sheets, were approximately \$0.2 million as of March 3, 2012, and \$0.1 million as of May 28, 2011.

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 nine months of fiscal 2012 was \$1.6 million. 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 remainder of fiscal 2012 and the next four years have been adjusted to reflect the Transaction as follows (*in thousands*):

| Fiscal Year | Payments |
|-----------------------|-----------------|
| Remaining Fiscal 2012 | \$ 149 |
| 2013 | \$ 697 |
| 2014 | \$ 369 |
| 2015 | \$ 317 |
| 2016 | \$ 281 |
| Thereafter | \$ 401 |
| Total | \$ 2,214 |

10. INCOME TAXES

The effective income tax rate from continuing operations during the third quarter and first nine months of fiscal 2012 was 28.6% and 32.5%, respectively, as compared to a tax rate of 69.5% and 52.3% for the third quarter and first nine months of fiscal 2011, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34.0% and 35.0% during the third quarter of fiscal 2012 and fiscal 2011 resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, return to provision adjustments, and the release of ASC-740 income tax reserves. There were no changes in judgment during the third quarter regarding the beginning-of-year valuation allowance which would require a benefit to be excluded from the annual effective tax rate and allocated to the interim period.

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In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state, or local tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal years 2009 and 2010. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal 2004; in Japan beginning in fiscal 2005, the Netherlands and Germany beginning in fiscal 2006; and in China beginning in calendar year 2005.

As of March 3, 2012, \$37.5 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of March 3, 2012, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of May 28, 2011. We record 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 reasonably possible that there will be a change in the unrecognized tax benefits related to continuing operations, excluding interest and penalties, in the range of \$0 to approximately \$0.1 million due to the expiration of various statutes of limitations 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 income and comprehensive income are based on the following amounts (*in thousands, except per share amounts*):

| | Three Months Ended | | | |
|--|--------------------|------------|-------------------|----------|
| | March 3, 2012 | | February 26, 2011 | |
| | Basic | Diluted | Basic | Diluted |
| <i>Numerator for Basic and Diluted EPS:</i> | | | | |
| Income from continuing operations | \$ 1,591 | \$ 1,591 | \$ 230 | \$ 230 |
| Less dividends: | | | | |
| Common stock | 698 | 698 | 304 | 304 |
| Class B common stock | 132 | 132 | 55 | 55 |
| Undistributed earnings (losses) | \$ 761 | \$ 761 | \$ (129) | \$ (129) |
| Common stock undistributed earnings (losses) | \$ 640 | \$ 640 | \$ (109) | \$ (110) |
| Class B common stock undistributed earnings (losses) | 121 | 121 | (20) | (19) |
| Total undistributed earnings (losses) | \$ 761 | \$ 761 | \$ (129) | \$ (129) |
| Income (loss) from discontinued operations | \$ (252) | \$ (252) | \$ 7,987 | \$ 7,987 |
| Less dividends: | | | | |
| Common stock | 698 | 698 | 304 | 304 |
| Class B common stock | 132 | 132 | 55 | 55 |
| Undistributed earnings (losses) | \$ (1,082) | \$ (1,082) | \$ 7,628 | \$ 7,628 |
| Common stock undistributed earnings (losses) | \$ (909) | \$ (911) | \$ 6,469 | \$ 6,493 |
| Class B common stock undistributed earnings (losses) | (173) | (171) | 1,159 | 1,135 |
| Total undistributed earnings (losses) | \$ (1,082) | \$ (1,082) | \$ 7,628 | \$ 7,628 |
| Net income | \$ 1,339 | \$ 1,339 | \$ 8,217 | \$ 8,217 |
| Less dividends: | | | | |
| Common stock | 698 | 698 | 304 | 304 |
| Class B common stock | 132 | 132 | 55 | 55 |
| Undistributed earnings | \$ 509 | \$ 509 | \$ 7,858 | \$ 7,858 |
| Common stock undistributed earnings | \$ 428 | \$ 428 | \$ 6,664 | \$ 6,689 |
| Class B common stock undistributed earnings | 81 | 81 | 1,194 | 1,169 |
| Total undistributed earnings | \$ 509 | \$ 509 | \$ 7,858 | \$ 7,858 |
| <i>Denominator for basic and diluted EPS:</i> | | | | |
| Common stock weighted average shares | 13,988 | 13,988 | 15,086 | 15,086 |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,940 | 2,940 | 3,002 | 3,002 |
| Effect of dilutive securities Dilutive stock options | | 122 | | 367 |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | | 17,050 | | 18,455 |

| | | | | |
|--|-----------|-----------|---------|---------|
| Income from continuing operations per share: | | | | |
| Common stock | \$ 0.10 | \$ 0.09 | \$ 0.01 | \$ 0.01 |
| Class B common stock | \$ 0.09 | \$ 0.09 | \$ 0.01 | \$ 0.01 |
| Income (loss) from discontinued operations per share: | | | | |
| Common stock | \$ (0.02) | \$ (0.01) | \$ 0.45 | \$ 0.43 |
| Class B common stock | \$ (0.01) | \$ (0.01) | \$ 0.40 | \$ 0.40 |
| Net income per share: | | | | |
| Common stock | \$ 0.08 | \$ 0.08 | \$ 0.46 | \$ 0.44 |
| Class B common stock | \$ 0.08 | \$ 0.08 | \$ 0.41 | \$ 0.41 |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the third quarter of fiscal 2012 and fiscal 2011 were 274,564 and 43,564, respectively.

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| | Nine Months Ended | | | |
|--|-------------------|----------|-------------------|-----------|
| | March 3, 2011 | | February 26, 2011 | |
| | Basic | Diluted | Basic | Diluted |
| <i>Numerator for Basic and Diluted EPS:</i> | | | | |
| Income from continuing operations | \$ 4,249 | \$ 4,249 | \$ 850 | \$ 850 |
| Less dividends: | | | | |
| Common stock | 2,111 | 2,111 | 893 | 893 |
| Class B common stock | 397 | 397 | 164 | 164 |
| Undistributed earnings (losses) | \$ 1,741 | \$ 1,741 | \$ (207) | \$ (207) |
| Common stock undistributed earnings (losses) | \$ 1,466 | \$ 1,468 | \$ (175) | \$ (175) |
| Class B common stock undistributed earnings (losses) | 275 | 273 | (32) | (32) |
| Total undistributed earnings (losses) | \$ 1,741 | \$ 1,741 | \$ (207) | \$ (207) |
| Income from discontinued operations | \$ 1,551 | \$ 1,551 | \$ 23,202 | \$ 23,202 |
| Less dividends: | | | | |
| Common stock | 2,111 | 2,111 | 893 | 893 |
| Class B common stock | 397 | 397 | 164 | 164 |
| Undistributed earnings (losses) | \$ (957) | \$ (957) | \$ 22,145 | \$ 22,145 |
| Common stock undistributed earnings (losses) | \$ (806) | \$ (807) | \$ 18,712 | \$ 18,772 |
| Class B common stock undistributed earnings (losses) | (151) | (150) | 3,433 | 3,373 |
| Total undistributed earnings (losses) | \$ (957) | \$ (957) | \$ 22,145 | \$ 22,145 |
| Net income | \$ 5,800 | \$ 5,800 | \$ 24,052 | \$ 24,052 |
| Less dividends: | | | | |
| Common stock | 2,111 | 2,111 | 893 | 893 |
| Class B common stock | 397 | 397 | 164 | 164 |
| Undistributed earnings | \$ 3,292 | \$ 3,292 | \$ 22,995 | \$ 22,995 |
| Common stock undistributed earnings | \$ 2,771 | \$ 2,776 | \$ 19,431 | \$ 19,492 |
| Class B common stock undistributed earnings | 521 | 516 | 3,564 | 3,503 |
| Total undistributed earnings | \$ 3,292 | \$ 3,292 | \$ 22,995 | \$ 22,995 |
| <i>Denominator for basic and diluted EPS:</i> | | | | |
| Common stock weighted average shares | 14,134 | 14,134 | 14,846 | 14,846 |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,944 | 2,944 | 3,026 | 3,026 |
| Effect of dilutive securities Dilutive stock options | | 166 | | 310 |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | | 17,244 | | 18,182 |
| Income from continuing operations per share: | | | | |
| Common stock | \$ 0.25 | \$ 0.25 | \$ 0.05 | \$ 0.05 |
| Class B common stock | \$ 0.23 | \$ 0.23 | \$ 0.04 | \$ 0.04 |

Income from discontinued operations per share:

| | | | | |
|--------------|---------|---------|---------|---------|
| Common stock | \$ 0.09 | \$ 0.09 | \$ 1.32 | \$ 1.28 |
|--------------|---------|---------|---------|---------|

| | | | | |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.08 | \$ 0.08 | \$ 1.19 | \$ 1.17 |
|----------------------|---------|---------|---------|---------|

Net income per share:

| | | | | |
|--------------|---------|---------|---------|---------|
| Common stock | \$ 0.34 | \$ 0.34 | \$ 1.37 | \$ 1.33 |
|--------------|---------|---------|---------|---------|

| | | | | |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.31 | \$ 0.31 | \$ 1.23 | \$ 1.21 |
|----------------------|---------|---------|---------|---------|

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first nine months of fiscal 2012 and fiscal 2011 were 161,000 and 153,564, respectively.

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In accordance with ASC 280-10, *Segment Reporting*, we have 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. With the acquisition of Powerlink, 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 medical original equipment manufacturer (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 | | Nine Months Ended | |
|----------------------|--------------------|----------------------|-------------------|----------------------|
| | March 3, 2012 | February 26, 2011 | March 3, 2012 | February 26, 2011 |
| <u>EDG</u> | | | | |
| Net Sales | \$ 26,867 | \$ 28,002 | \$ 85,618 | \$ 84,150 |
| Gross Profit | \$ 8,085 | \$ 8,412 | \$ 26,302 | \$ 26,411 |
| <u>Canvys</u> | | | | |
| Net Sales | \$ 11,463 | \$ 11,651 | \$ 33,361 | \$ 33,993 |
| Gross Profit | \$ 3,212 | \$ 3,145 | \$ 9,387 | \$ 8,332 |

A reconciliation of assets to the relevant consolidated amount is as follows (*in thousands*):

| | March 3, 2012 | May 28, 2011 |
|--|-------------------|-------------------|
| Segment assets | \$ 61,475 | \$ 51,464 |
| Cash | 24,430 | 170,975 |
| Investments current | 130,030 | 52,116 |
| Other current assets ⁽¹⁾ | 9,541 | 9,615 |
| Net property | 4,491 | 5,216 |
| Investments non-current | 14,765 | 16,656 |
| Other assets ⁽²⁾ | 1,829 | 3,994 |
| Assets of discontinued operations ⁽³⁾ | 626 | 4,018 |
| Total assets | \$ 247,187 | \$ 314,054 |

(1) Other current assets include miscellaneous receivables, prepaid expenses, and current deferred income taxes.

(2) Other assets primarily include non-current deferred income taxes.

(3) See Footnote 5 Discontinued Operations.

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

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------|--------------------|----------------------|-------------------|----------------------|
| | March 3, 2012 | February 26, 2011 | March 3, 2012 | February 26, 2011 |
| Net Sales | | | | |
| North America | \$ 17,055 | \$ 17,715 | \$ 50,662 | \$ 50,962 |
| Asia/Pacific | 5,852 | 6,042 | 19,904 | 19,717 |
| Europe | 12,682 | 12,694 | 39,469 | 38,103 |
| Latin America | 2,444 | 2,432 | 7,557 | 7,825 |
| Other | 297 | 770 | 1,387 | 1,536 |
| Total | \$ 38,330 | \$ 39,653 | \$ 118,979 | \$ 118,143 |
| Gross Profit | | | | |
| North America | \$ 5,577 | \$ 5,136 | \$ 16,288 | \$ 15,559 |
| Asia/Pacific | 2,151 | 2,119 | 7,088 | 6,954 |
| Europe | 4,003 | 3,683 | 12,528 | 10,586 |
| Latin America | 992 | 936 | 2,909 | 3,099 |
| Other | (1,426) | (317) | (3,124) | (1,455) |
| Total | \$ 11,297 | \$ 11,557 | \$ 35,689 | \$ 34,743 |

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.

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 March 3, 2012, we held investments that are required to be measured at fair value on a recurring basis. Our investments consist of time deposits and CDs, where 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 March 3, 2012, and May 28, 2011, were as follows (*in thousands*):

| | Level 1 | Level 2 | Level 3 |
|-----------------------------|-------------------|-----------|-----------|
| <u>March 3, 2012</u> | | | |
| Time deposits/CDs | \$ 144,403 | \$ | \$ |
| Equity securities | 392 | | |
| Total | \$ 144,795 | \$ | \$ |
| <u>May 28, 2011</u> | | | |
| Time deposits/CDs | \$ 68,366 | \$ | \$ |
| Equity securities | 406 | | |
| Total | \$ 68,772 | \$ | \$ |

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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 22, 2011, and in the Company's Proxy Statement on Schedule 14A filed on August 23, 2011. 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 unaudited consolidated financial statements and the accompanying notes thereto appearing elsewhere herein. This section is organized as follows:

Business Overview

Results of Operations an analysis and comparison of our consolidated results of operations for the three and nine month periods ended March 3, 2012, and February 26, 2011, as reflected in our unaudited consolidated statements of income and comprehensive income.

Liquidity, Financial Position, and Capital Resources a discussion of our primary sources and uses of cash for the nine month periods ended March 3, 2012, and February 26, 2011, 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 used as display devices in a variety of industrial, commercial, medical, and communication applications.

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On March 1, 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, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) The final purchase price was subject to a post-closing working capital adjustment.

On June 29, 2011, we received notification from Arrow seeking a post-closing working capital adjustment, which would reduce the purchase price by approximately \$4.2 million. We recorded the working capital adjustment of \$4.2 million in our results from discontinued operations during our fourth quarter of fiscal 2011. During the first quarter of fiscal 2012, we agreed to approximately \$3.9 million of the proposed working capital adjustment and adjusted our results from discontinued operations during the first quarter. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a working capital adjustment of \$0.2 million related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. The company generated revenues of approximately \$2.0 million during its fiscal year ended May 31, 2011. This acquisition positions us to provide cost-effective distribution, installation and service of microwave and power grid tube equipment for communications, industrial, military and medical users around the world.

The allocation of the purchase price, recorded during our second quarter of fiscal 2012, includes \$0.4 million of trade receivables, \$0.2 million of inventory, and \$1.7 million of goodwill.

The goodwill recorded of \$1.7 million represents the excess of purchase price over the fair market value of the identifiable net assets we acquired. Beginning with our fourth quarter of fiscal year 2012, we will be testing our goodwill for impairment on an annual basis in accordance with Accounting Standards Update (ASU) No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. We do not expect the results of our impairment testing to have a material impact to our financial results for fiscal year 2012.

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. With the acquisition of Powerlink, 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 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 MARCH 3, 2012

Net sales for the third quarter of fiscal 2012 were \$38.3 million, down 3.3%, compared to net sales of \$39.7 million during the third quarter of last year.

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Gross margin as a percentage of net sales increased to 29.5% during the third quarter of fiscal 2012 compared to 29.1% during the third quarter of last year.

SG&A expenses during the third quarter of fiscal 2012 were \$9.5 million, or 24.7% of net sales, compared to \$10.7 million, or 27.1% of net sales, during the third quarter of last year.

Operating income during the third quarter of fiscal 2012 was \$1.8 million, or 4.8% of net sales, compared to operating income of \$0.8 million, or 2.1% of net sales, during the third quarter of last year.

Income from continuing operations during the third quarter of fiscal 2012 was \$1.6 million, or \$0.09 per diluted common share, compared to income from continuing operations of \$0.2 million, or \$0.01 per diluted common share, during the third quarter of last year.

Loss from discontinued operations, net of tax, was \$0.3 million, or \$0.01 per diluted common share, during the third quarter of fiscal 2012 compared to income from discontinued operations, net of tax, of \$8.0 million, or \$0.43 per diluted common share, during the third quarter of last year.

Net income during the third quarter of fiscal 2012 was \$1.3 million, or \$0.08 per diluted common share, compared to net income of \$8.2 million, or \$0.44 per diluted common share, during the third quarter of last year.

FINANCIAL SUMMARY NINE MONTHS ENDED MARCH 3, 2012

Net sales for the first nine months of fiscal 2012 were \$119.0 million, up 0.7%, compared to net sales of \$118.1 million during the first nine months of last year.

Gross margin as a percentage of net sales increased to 30.0% during the first nine months of fiscal 2012 compared to 29.4% during the first nine months of last year.

SG&A expenses during the first nine months of fiscal 2012 were \$30.2 million, or 25.4% of net sales, compared to \$32.5 million, or 27.5% of net sales, during the first nine months of last year.

Operating income during the first nine months of fiscal 2012 was \$5.6 million, or 4.7% of net sales, compared to operating income of \$2.3 million, or 1.9% of net sales, during the first nine months of last year.

Income from continuing operations during the first nine months of fiscal 2012 was \$4.2 million, or \$0.25 per diluted common share, compared to income from continuing operations of \$0.9 million, or \$0.05 per diluted common share during the first nine months of last year.

Income from discontinued operations, net of tax, was \$1.6 million, or \$0.09 per diluted common share, during the first nine months of fiscal 2012 compared to \$23.2 million, or \$1.28 per diluted common share, during the first nine months of last year.

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Net income during the first nine months of fiscal 2012 was \$5.8 million, or \$0.34 per diluted common share, compared to net income of \$24.1 million, or \$1.33 per diluted common share, during the first nine months of last year.

Net Sales and Gross Profit Analysis

During the third quarter of fiscal 2012, consolidated net sales decreased 3.3% to \$38.3 million compared to \$39.7 million during the third quarter of fiscal 2011. During the first nine months of fiscal 2012, consolidated net sales increased 0.7% to \$119.0 million compared to \$118.1 million during the first nine months of fiscal 2011.

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Net sales by segment and percent change during the third quarter and first nine months of fiscal 2012 and 2011 were as follows (*in thousands*):

| Net Sales | FY 2012 | FY 2011 | % Change |
|---------------------------------|------------|------------|----------|
| <u>Third Quarter</u> | | | |
| EDG | \$ 26,867 | \$ 28,002 | (4.1%) |
| Canvys | 11,463 | 11,651 | (1.6%) |
| Total | \$ 38,330 | \$ 39,653 | (3.3%) |
| <u>First Nine Months</u> | | | |
| EDG | \$ 85,618 | \$ 84,150 | 1.7% |
| Canvys | 33,361 | 33,993 | (1.9%) |
| Total | \$ 118,979 | \$ 118,143 | 0.7% |

Consolidated gross profit as a percentage of net sales increased to 29.5% during the third quarter of fiscal 2012, as compared to 29.1% during the third quarter of fiscal 2011 and to 30.0% during the first nine months of fiscal 2012, as compared to 29.4% during the first nine months of fiscal 2011.

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

Gross profit by segment and percent of segment net sales during the third quarter and first nine months of fiscal 2012 and 2011 were as follows (*in thousands*):

| Gross Profit | FY 2012 | % of Net Sales | FY 2011 | % of Net Sales |
|---------------------------------|-----------|----------------|-----------|----------------|
| <u>Third Quarter</u> | | | | |
| EDG | \$ 8,085 | 30.1% | \$ 8,412 | 30.0% |
| Canvys | 3,212 | 28.0% | 3,145 | 27.0% |
| Total | \$ 11,297 | 29.5% | \$ 11,557 | 29.1% |
| <u>First Nine Months</u> | | | | |
| EDG | \$ 26,302 | 30.7% | \$ 26,411 | 31.4% |
| Canvys | 9,387 | 28.1% | 8,332 | 24.5% |
| Total | \$ 35,689 | 30.0% | \$ 34,743 | 29.4% |

Electron Device Group

Net sales for EDG were \$26.9 million, down 4.1%, during the third quarter of fiscal 2012 compared to \$28.0 million during the third quarter of fiscal 2011. The decrease in net sales is due to declines within the semiconductor fabrication equipment and broadcast markets, partially offset by sales growth for our industrial tube products. Our sales growth for our industrial tube products is the result of a strategic distribution agreement and an increase in sales to end users globally. Gross margin as a percentage of net sales remained relatively flat at 30.1% during the third quarter of fiscal 2012, compared to 30.0% during the third quarter of fiscal 2011.

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Net sales for EDG were \$85.6 million, up 1.7%, during the first nine months of fiscal 2012 compared to \$84.2 million during the first nine months of fiscal 2011. The increase in net sales is due to increased demand for our industrial tube products, partially offset by declines in both the semiconductor and broadcast markets. Gross margin as a percentage of net sales decreased to 30.7% during the first nine months of fiscal 2012, compared to 31.4% during the first nine months of fiscal 2011 reflecting a shift in sales mix between product lines and geographic regions.

Canvys

Net sales for Canvys were \$11.5 million, down 1.6%, during the third quarter of fiscal 2012 compared to \$11.7 million during the third quarter of fiscal 2011. The decrease in net sales is primarily due to a decline in demand from our European OEM customers and our North American health care customers, partially offset by an increase in sales from our North American OEM customers. Gross margin as a percentage of net sales for the third quarter of fiscal 2012 increased to 28.0%, compared to 27.0% in the prior year's quarter. The increase in gross margin was due to continued growth and focus on the more profitable OEM business in both North America and Europe.

Net sales for Canvys were \$33.4 million, down 1.9%, during the first nine months of fiscal 2012 compared to \$34.0 million during the first nine months of fiscal 2011. The decrease in net sales is primarily due to a decline in demand from our European OEM customers and our North American health care customers, partially offset by an increase in sales from our North American OEM customers. Gross margin as a percentage of net sales for the first nine months of fiscal 2012 increased to 28.1%, compared to 24.5% in the prior year's first nine months. The increase in gross margin was due to continued growth and focus on the more profitable OEM business in both North America and Europe, in addition to a decline in inbound freight costs during the first nine months of fiscal 2012, compared to the first nine months of fiscal 2011.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$9.5 million for the third quarter of fiscal 2012 compared to \$10.7 million during the third quarter of fiscal 2011. The \$9.5 million and \$10.7 million during the third quarter of fiscal 2012 and fiscal 2011, respectively, reflect the SG&A from our continuing operations. The \$1.2 million decrease includes a \$0.1 million reduction of SG&A for Canvys and a \$1.1 million reduction of total company support function costs, due primarily to a reduction in headcount and professional services. SG&A for EDG remained relatively flat during the third quarter of fiscal 2012 compared to fiscal 2011.

Selling, general and administrative expenses (SG&A) were \$30.2 million for the first nine months of fiscal 2012 compared to \$32.5 million during the first nine months of fiscal 2011. The \$30.2 million and \$32.5 million during the first nine months of fiscal 2012 and fiscal 2011, respectively, reflect the SG&A from our continuing operations. The \$2.3 million decrease in SG&A includes a \$0.1 million reduction of SG&A for Canvys and a \$2.6 million reduction of total company support function costs, due primarily to a reduction in headcount and professional services, offset by a \$0.4 million increase in SG&A for EDG.

Other (Income) Expense

Other (income) expense was \$0.4 million of income during the third quarter of fiscal 2012, as compared to \$0.1 million of expense during the third quarter of fiscal 2011. Other (income) expense included a foreign exchange gain of less than \$0.1 million during the third quarter of fiscal 2012, as compared to a foreign exchange loss of less than \$0.1 million during the third quarter of fiscal 2011. Our foreign exchange gains and losses are primarily due to the translation of our U.S. dollars we hold in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The third quarter of fiscal 2012 also included \$0.4 million of investment/interest income, while the third quarter of fiscal 2011 included interest expense of less than \$0.1 million.

Other (income) expense was \$0.7 million of income during the first nine months of fiscal 2012, as compared to \$0.5 million of expense during the first nine months of fiscal 2011. Other (income) expense included a foreign exchange loss of \$0.3 million during the first nine months of fiscal 2012, and the first nine months of fiscal 2011. Our foreign exchange gains and losses are primarily due to the translation of our U.S. dollars we hold in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The first nine months of fiscal 2012 also included \$1.0 million of investment/interest income, while the first nine months of fiscal 2011 included interest expense of \$0.1 million.

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Income Tax Provision

The effective income tax rate from continuing operations during the third quarter and first nine months of fiscal 2012 was 28.6% and 32.5%, respectively, as compared to a tax rate of 69.5% and 52.3% for the third quarter and first nine months of fiscal 2011, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34.0% and 35.0% during the third quarter of fiscal 2012 and fiscal 2011 resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, return to provision adjustments, and the release of ASC-740 income tax reserves. There were no changes in judgment during the third quarter regarding the beginning-of-year valuation allowance which would require a benefit to be excluded from the annual effective tax rate and allocated to the interim period.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state, or local tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal years 2009 and 2010. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal 2004; in Japan beginning in fiscal 2005, the Netherlands and Germany beginning in fiscal 2006; and in China beginning in calendar year 2005.

As of March 3, 2012, \$37.5 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of March 3, 2012, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of May 28, 2011. We record 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 reasonably possible that there will be a change in the unrecognized tax benefits related to continuing operations, excluding interest and penalties, in the range of \$0 to approximately \$0.1 million due to the expiration of various statutes of limitations within the next 12 months.

Discontinued Operations

Arrow Transaction

On March 1, 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, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) The final purchase price was subject to a post-closing working capital adjustment.

On June 29, 2011, we received notification from Arrow seeking a post-closing working capital adjustment, which would reduce the purchase price by approximately \$4.2 million. We recorded the working capital adjustment of \$4.2 million in our results from discontinued operations during our fourth quarter of fiscal 2011. During the first quarter of fiscal 2012, we agreed to approximately \$3.9 million of the proposed working capital adjustment and adjusted our results from discontinued operations during the first quarter of fiscal 2012. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

Table of Contents**Financial Summary Discontinued Operations**

Summary financial results for the three and nine months ended March 3, 2012, and February 26, 2011, are presented in the following table (*in thousands*):

| | Three Months | | Nine Months | |
|--|--------------|--------------|-------------|--------------|
| | Mar 3, 2012 | Feb 26, 2011 | Mar 3, 2012 | Feb 26, 2011 |
| Net sales | \$ 840 | \$ 104,593 | \$ 2,532 | \$ 313,013 |
| Gross profit (loss) | (44) | 22,836 | (418) | 67,156 |
| Selling, general, and administrative expenses | 312 | 14,119 | (110) | 41,883 |
| Interest expense, net | | 119 | | 387 |
| Foreign exchange loss | 65 | | 39 | |
| Additional gain on sale | | | (266) | |
| Income tax provision (benefit) | (169) | 611 | (1,632) | 1,684 |
| Income (loss) from discontinued operations, net of tax | \$ (252) | \$ 7,987 | \$ 1,551 | \$ 23,202 |

Net sales and gross profit (loss) for the three and nine months ended March 3, 2012, 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 for Arrow. Selling, general, and administrative expenses for the nine months ended March 3, 2012, reflect a benefit of \$0.1 million for adjustments recorded due to changes in our estimates related to liabilities for our discontinued operations. During the first quarter of fiscal 2012, in connection with an examination by the Internal Revenue Service, we reduced our deferred tax liability by \$2.1 million related to our un-repatriated foreign earnings based on a determination of the amount of earnings and profits remaining in certain foreign subsidiaries after the Arrow transaction. During the second quarter of fiscal 2012, we recorded approximately \$0.8 million of additional tax provision which represents return to provision adjustments and other tax adjustments. During the third quarter of fiscal 2012, we recorded approximately \$0.2 million of tax benefit primarily representing return to provision adjustments.

In accordance with ASC 205-20, the allocation of interest expense to discontinued operations of other consolidated interest that is not directly attributable to, or related to, other operations of the entity is permitted but not required. The consolidated interest that cannot be attributable to other operations of the entity is allocated based on the ratio of net assets to be sold or discontinued to the total consolidated net assets. We appropriately allocated approximately \$0.1 million and \$0.4 million of interest expense to discontinued operations for the three and nine months ended February 26, 2011, respectively, using the ratio of net assets that we sold or that became discontinued to total assets.

Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of March 3, 2012, and May 28, 2011, include the following (*in thousands*):

| | Mar 3, 2012 | May 28, 2011 |
|--|-----------------|------------------|
| Accounts receivable | \$ | \$ 2,356 |
| Inventories | 615 | 1,152 |
| Prepaid expenses and other assets | 11 | 110 |
| Current deferred income taxes | | 400 |
| Discontinued operations Assets | \$ 626 | \$ 4,018 |
| Accrued liabilities current ⁽¹⁾ | \$ 113 | \$ 15,897 |
| Long-term income tax liabilities non-current (2) | 1,233 | 1,622 |
| Discontinued operations Liabilities | \$ 1,346 | \$ 17,519 |

(1) Included in accrued liabilities as of March 3, 2012, is a payable to Arrow for cash collections of \$0.1 million.

(2)

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Included in long-term income tax liabilities non-current as of March 3, 2012, is the reserve for uncertain *tax positions of \$1.4 million, offset by withholding tax of \$0.2 million related to our discontinued operations.*

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Net Income and Per Share Data

Net income during the third quarter of fiscal 2012 was \$1.3 million, or \$0.08 per diluted common share and \$0.08 per Class B diluted common share, as compared to net income of \$8.2 million during the third quarter of fiscal 2011, or \$0.44 per diluted common share and \$0.41 per Class B diluted common share.

Net income during the first nine months of fiscal 2012 was \$5.8 million, or \$0.34 per diluted common share and \$0.31 per Class B diluted common share, as compared to net income of \$24.1 million during the first nine months of fiscal 2011, or \$1.33 per diluted common share and \$1.21 per Class B diluted common share.

LIQUIDITY, FINANCIAL POSITION, AND CAPITAL RESOURCES

Our growth and cash needs have been primarily financed through income from operations. Cash and cash equivalents for the third quarter ended March 3, 2012, were \$24.4 million. In addition, time deposits and CD's classified as short-term investments were \$130.0 million and long-term investments were \$14.8 million, including equity securities of \$0.4 million. Cash and investments at March 3, 2012, consisted of \$103.2 million in North America, \$18.8 million in Europe, \$0.5 million in Latin America, and \$46.7 million in Asia/Pacific. At May 28, 2011, cash and cash equivalents were \$171.0 million. Time deposits and CD's classified as short-term investments were \$52.1 million and long-term investments were \$16.7 million, including equity securities of \$0.4 million. Cash and investments at May 28, 2011, consisted of \$157.5 million in North America, \$36.6 million in Europe, \$1.0 million in Latin America, and \$44.7 million in Asia/Pacific. While net income has significantly declined as a result of the Transaction, our working capital investment and capital spending requirements have also significantly declined.

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 flows 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 currently do not have cash balances that are specific to RFPD and as a result, we believe that the appropriate presentation would be to not separate cash flows from discontinued operations on our statement of cash flows.

Cash Flows from Operating Activities

Cash used in operating activities, including our discontinued operations, during the first nine months of fiscal 2012 was \$52.6 million. The \$52.6 million of cash used in operating activities primarily reflects a decrease of \$49.5 million in accrued liabilities, a \$5.4 million decrease in long-term tax liabilities, a \$4.8 million increase in income tax receivable, and an increase of \$8.3 million in inventory, offset by an \$8.6 million decrease in prepaid expenses and other assets. The \$49.5 million decrease in accrued liabilities, excluding the impact of foreign exchange of \$0.4 million, was due primarily to our tax payment related to the sale of RFPD during the first nine months of fiscal 2012. The \$5.4 million decrease in long-term tax liabilities, excluding the impact of foreign exchange of \$0.2 million, relates primarily to adjustments to our deferred tax liabilities as a result of changes to the amounts of permanently reinvested foreign earnings. The \$4.8 million in income tax receivable relates to an overpayment in our estimated tax during the first nine months of fiscal 2012. The \$8.3 million in inventory, excluding the impact of foreign exchange of \$0.3 million, was due primarily to increased purchasing to support future sales growth. The \$8.6 million decrease in prepaid expenses and other assets, excluding the impact of foreign exchange of less than \$0.1 million, was due primarily to the final payment received of \$4.2 million from Arrow for the sale of RFPD and a \$4.3 million decrease of discontinued assets.

Cash used in operating activities, including our discontinued operations, during the first nine months of fiscal 2011 was \$6.5 million. The \$6.5 million of cash used in operating activities reflects increases in accounts receivable and inventory, partially offset by increases in accounts payable. The increase in accounts receivable of \$19.9 million, excluding the impact of foreign exchange of \$5.3 million, was due primarily to increased sales volume during the first nine months of fiscal 2011. The increase in inventory of \$20.3 million, excluding the impact of foreign currency exchange of \$1.2 million, during the first nine months of fiscal 2011, was due primarily to increased purchasing to support future sales growth. The increase in accounts payable balances of \$8.7 million, excluding the impact of foreign currency exchange of \$0.7 million, during the first nine months of fiscal 2011, was due primarily to the timing of payments as well as the increase in inventory purchases.

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Cash Flows from Investing Activities

Net cash used in investing activities, including our discontinued operations, of \$78.4 million during the first nine months of fiscal 2012 was due primarily to the purchase of \$199.2 million in time deposits and CDs, and \$2.3 million paid for the acquisition of Powerlink, offset by \$123.1 million in proceeds from time deposits and CDs. Net cash used in investing activities, including our discontinued operations, of less than \$0.6 million during the first nine months of fiscal 2011 was due primarily to \$0.5 million of capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities, including discontinued operations, of \$14.9 million during the first nine months of fiscal 2012 was due primarily to \$13.1 million related to the repurchase of common stock and \$2.5 million in cash dividends paid, partially offset by \$0.7 million in proceeds from the issuance of common stock. Net cash provided by financing activities, including discontinued operations, of \$5.3 million during the first nine months of fiscal 2011 was due primarily to borrowings on our credit agreement and proceeds from the issuance of common stock, partially offset by the redemption of our 7 ³/₄% Notes and cash dividends paid.

Dividend payments for the first nine months of fiscal 2012 were approximately \$2.5 million. All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions, and such other factors that the Board may deem relevant.

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 June 2, 2012.

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 included \$34.7 million of finished goods and \$3.6 million of raw materials and work-in-progress as of March 3, 2012, compared to approximately \$28.0 million of finished goods and \$2.9 million of raw materials and work-in-progress as of May 28, 2011.

At this time, we do not anticipate any material risks or uncertainties related to possible inventory write-downs for the remainder of the fiscal year 2012, ending June 2, 2012.

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 a limited number of cases, we provide and bill our customers with non-product related services, such as testing, calibration, non-recurring engineering, tooling, and installation services. We have concluded that the service revenue should not be considered a separate unit of accounting from the product sale as we have determined there is no objective and reliable evidence of the fair value of the undelivered items.

We have also concluded that, in the limited cases where remaining obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory. 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 minimal, 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 the service.

Discontinued Operations: In accordance with 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 5 *Discontinued Operations* of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

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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.

New Accounting Pronouncements: During December 2011, the FASB issued Accounting Standard Update (ASU) No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments to the Codification in ASU No. 2011-12 are effective at the same time as the amendments in ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring. In order to defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in ASU No. 2011-12 supersede certain pending paragraphs in ASU No. 2011-05. The amendments are being made to allow the FASB time to re-deliberate whether to present on the face of the financial statements the effects of the reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods with those years, beginning after December 15, 2011, and as such, we have adopted ASU No. 2011-05 during our third quarter of fiscal 2012.

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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 May 28, 2011, and in our Proxy Statement on schedule 14A filed with the Security and Exchange Commission on August 23, 2011.

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 March 3, 2012.

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 third quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**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 May 28, 2011, and in our Proxy Statement on Schedule 14A filed with the Security and Exchange Commission on August 23, 2011.

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

| Period | Total Number of Shares | Average Price Paid per | 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 |
|------------------------------------|---------------------------|---------------------------|---|--|--|
| | Purchased | Share | | | Authorization |
| December 3, 2011 | | | | | \$ 29,435,256 |
| December 4, 2011 December 31, 2011 | 9,923 | \$ 12.01 | 9,923 | \$ 119,180 | \$ 29,316,076 |
| January 1, 2012 January 28, 2012 | 21,309 | \$ 11.99 | 21,309 | \$ 255,488 | \$ 29,060,588 |
| January 29, 2012 March 3, 2012 | 67,252 | \$ 12.19 | 67,252 | \$ 819,948 | \$ 28,240,640 |
| TOTAL | 98,484 | \$ 12.13 | 98,484 | \$ 1,194,616 | |

ITEM 5. OTHER INFORMATION**Results of Operation and Financial Condition and Declaration of Dividend**

On April 11, 2012, we issued a press release reporting results for our third quarter and first nine months ended March 3, 2012, 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: April 12, 2012

By: /s/ Kathleen S. Dvorak
Kathleen S. Dvorak
Chief Financial Officer
(on behalf of the Registrant and

as Principal Financial Officer)

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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 April 11, 2012. |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the third quarter and first nine months of fiscal 2012, filed with the SEC on April 12, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Unaudited Consolidated Balance Sheets as of March 3, 2012, and May 28, 2011, (ii) the Unaudited Consolidated Statements of Income and Comprehensive Income (Loss) for the three months and nine months ended March 3, 2012, and February 26, 2011, (iii) the Unaudited Consolidated Statements of Cash Flows for the three and nine months ended March 3, 2012, and February 26, 2011, (iv) the Unaudited Consolidated Statement of Stockholder's Equity as of March 3, 2012, and (v) Notes to Unaudited Consolidated Financial Statements. |