

RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
January 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 28, 2015

OR

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

For the transition period from _____ To _____

Commission File Number: 0-12906

RICHARDSON ELECTRONICS, LTD.

(Exact name of registrant as specified in its charter)

Delaware **36-2096643**
(State or other jurisdiction of (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 January 4, 2016, there were outstanding 10,702,932 shares of Common Stock, \$0.05 par value and 2,140,631 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.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| Part I. Financial Information | |
| <u>Item 1. Financial Statements</u> | 2 |
| <u>Consolidated Balance Sheets</u> | 2 |
| <u>Unaudited Consolidated Statements of Comprehensive Loss</u> | 3 |
| <u>Unaudited Consolidated Statements of Cash Flows</u> | 4 |
| <u>Unaudited Consolidated Statement of Stockholders' Equity</u> | 5 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 22 |
| <u>Item 4. Controls and Procedures</u> | 22 |
| Part II. Other Information | |
| <u>Item 1. Legal Proceedings</u> | 23 |
| <u>Item 1A. Risk Factors</u> | 23 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| <u>Item 5. Other Information</u> | 23 |
| <u>Item 6. Exhibits</u> | 23 |
| <u>Signatures</u> | 24 |
| <u>Exhibit Index</u> | 25 |

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Richardson Electronics, Ltd.****Consolidated Balance Sheets***(in thousands, except per share amounts)*

| | Unaudited November 28, 2015 | Audited May 30, 2015 |
|--|--------------------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$67,863 | \$74,535 |
| Accounts receivable, less allowance of \$283 | 21,041 | 20,753 |
| Inventories, net | 43,126 | 38,769 |
| Prepaid expenses and other assets | 2,111 | 1,696 |
| Deferred income taxes | 637 | 804 |
| Income tax receivable | 265 | 929 |
| Investments - current | 3,719 | 23,692 |
| Total current assets | 138,762 | 161,178 |
| Non-current assets: | | |
| Property, plant and equipment, net | 10,893 | 10,081 |
| Goodwill | 6,271 | — |
| Intangible assets, net | 3,861 | 743 |
| Non-current deferred income taxes | 1,164 | 1,443 |
| Investments - non-current | 7,897 | 11,549 |
| Total non-current assets | 30,086 | 23,816 |
| Total assets | \$168,848 | \$184,994 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | 13,583 | 15,768 |
| Accrued liabilities | 8,866 | 10,144 |
| Total current liabilities | 22,449 | 25,912 |
| Non-current liabilities: | | |
| Non-current deferred income tax liabilities | 1,019 | 1,209 |
| Other non-current liabilities | 743 | 1,221 |
| Total non-current liabilities | 1,762 | 2,430 |
| Total liabilities | 24,211 | 28,342 |
| Stockholders' equity | | |
| Common stock, \$0.05 par value; issued 10,698 shares at November 28, 2015, and 11,530 shares at May 30, 2015 | 535 | 577 |
| Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,141 shares at November 28, 2015, and at May 30, 2015 | 107 | 107 |

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| | | |
|--|-----------|-----------|
| Preferred stock, \$1.00 par value, no shares issued | — | — |
| Additional paid-in-capital | 58,715 | 63,252 |
| Common stock in treasury, at cost, no shares at November 28, 2015, and at May 30, 2015 | — | — |
| Retained earnings | 83,889 | 89,141 |
| Accumulated other comprehensive income | 1,391 | 3,575 |
| Total stockholders' equity | 144,637 | 156,652 |
| Total liabilities and stockholders' equity | \$168,848 | \$184,994 |

Richardson Electronics, Ltd.**Unaudited Consolidated Statements of Comprehensive Loss***(in thousands, except per share amounts)*

| | Three Months Ended | | Six Months Ended | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | November 28, 2015 | November 29, 2014 | November 28, 2015 | November 29, 2014 |
| Statements of Comprehensive Loss | | | | |
| Net sales | \$34,086 | \$33,841 | \$71,157 | \$68,540 |
| Cost of sales | 23,651 | 23,379 | 49,460 | 47,420 |
| Gross profit | 10,435 | 10,462 | 21,697 | 21,120 |
| Selling, general, and administrative expenses | 13,200 | 12,621 | 25,467 | 23,803 |
| (Gain) loss on disposal of assets | (243) | — | (244) | 9 |
| Operating loss | (2,522) | (2,159) | (3,526) | (2,692) |
| Other (income) expense: | | | | |
| Investment/interest income | (111) | (249) | (302) | (505) |
| Foreign exchange (gain) loss | (339) | 47 | (157) | (10) |
| Other, net | (49) | (14) | (13) | (16) |
| Total other income | (499) | (216) | (472) | (531) |
| Loss from continuing operations before income taxes | (2,023) | (1,943) | (3,054) | (2,161) |
| Income tax provision (benefit) | 263 | (799) | 631 | (934) |
| Loss from continuing operations | (2,286) | (1,144) | (3,685) | (1,227) |
| Income from discontinued operations, net of tax | — | 87 | — | 87 |
| Net loss | (2,286) | (1,057) | (3,685) | (1,140) |
| Foreign currency translation loss, net of tax | (1,649) | (2,993) | (2,152) | (3,961) |
| Fair value adjustments on investments gain (loss) | 28 | — | (32) | 25 |
| Comprehensive loss | \$(3,907) | \$(4,050) | \$(5,869) | \$(5,076) |
| Net income (loss) per Common share - Basic: | | | | |
| Loss from continuing operations | \$(0.18) | \$(0.08) | \$(0.28) | \$(0.09) |
| Income from discontinued operations | — | 0.01 | — | 0.01 |
| Total loss per Common share - Basic: | \$(0.18) | \$(0.07) | \$(0.28) | \$(0.08) |
| Net income (loss) per Class B common share - Basic: | | | | |
| Loss from continuing operations | \$(0.16) | \$(0.07) | \$(0.25) | \$(0.08) |
| Income from discontinued operations | — | 0.01 | — | 0.01 |
| Total loss per Class B common share - Basic: | \$(0.16) | \$(0.06) | \$(0.25) | \$(0.07) |
| Net income (loss) per Common share - Diluted: | | | | |
| Loss from continuing operations | \$(0.18) | \$(0.08) | \$(0.28) | \$(0.09) |
| Income from discontinued operations | — | 0.01 | — | 0.01 |
| Total loss per Common share - Diluted: | \$(0.18) | \$(0.07) | \$(0.28) | \$(0.08) |
| Net income (loss) per Class B common share - Diluted: | | | | |
| Loss from continuing operations | \$(0.16) | \$(0.07) | \$(0.25) | \$(0.08) |
| Income from discontinued operations | — | 0.01 | — | 0.01 |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| Total loss per Class B common share - Diluted: | \$(0.16) | \$(0.06) | \$(0.25) | \$(0.07) |
| Weighted average number of shares: | | | | |
| Common shares - Basic | 10,742 | 11,770 | 11,114 | 11,797 |
| Class B common shares - Basic | 2,141 | 2,141 | 2,141 | 2,161 |
| Common shares - Diluted | 10,742 | 11,770 | 11,114 | 11,797 |
| Class B common shares - Diluted | 2,141 | 2,141 | 2,141 | 2,161 |
| Dividends per common share | \$0.060 | \$0.060 | \$0.120 | \$0.120 |
| Dividends per Class B common share | \$0.054 | \$0.054 | \$0.108 | \$0.108 |

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

| | Three Months Ended | | Six Months Ended | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | November 28, 2015 | November 29, 2014 | November 28, 2015 | November 29, 2014 |
| Operating activities: | | | | |
| Net loss | \$(2,286) | \$(1,057) | \$(3,685) | \$(1,140) |
| Adjustments to reconcile net loss to cash used in operating activities: | | | | |
| Depreciation and amortization | 797 | 443 | 1,282 | 809 |
| Gain on sale of investments | (8) | (6) | (19) | (9) |
| Gain on disposal of assets | (243) | (26) | (244) | (26) |
| Share-based compensation expense | 225 | 266 | 315 | 386 |
| Deferred income taxes | 254 | (88) | 255 | (167) |
| Change in assets and liabilities, net of effect of acquired business: | | | | |
| Accounts receivable | 2,554 | 78 | 29 | (294) |
| Income tax receivable | 116 | 580 | 664 | 2,888 |
| Inventories, net | (2,879) | (2,151) | (3,472) | (4,261) |
| Prepaid expenses and other assets | 137 | (1,038) | (444) | (903) |
| Accounts payable | (469) | 1,388 | (1,990) | 1,489 |
| Accrued liabilities | (396) | (439) | (1,200) | (1,101) |
| Non-current deferred income tax liabilities | (228) | — | — | — |
| Long-term liabilities-acrued pension | — | — | (465) | — |
| Other | 96 | 42 | 131 | (7) |
| Net cash used in operating activities | (2,330) | (2,008) | (8,843) | (2,336) |
| Investing activities: | | | | |
| Cash consideration paid for acquired business | — | — | (12,209) | — |
| Capital expenditures | (792) | (1,102) | (1,776) | (1,936) |
| Proceeds from sales of assets | 402 | — | 402 | — |
| Proceeds from maturity of investments | 7,234 | 725 | 25,584 | 31,207 |
| Purchases of investments | (2,151) | (981) | (2,151) | (33,343) |
| Proceeds from sales of available-for-sale securities | 44 | 37 | 144 | 74 |
| Purchases of available-for-sale securities | (44) | (37) | (144) | (74) |
| Other | (28) | (2) | 32 | (30) |
| Net cash provided by (used in) investing activities | 4,665 | (1,360) | 9,882 | (4,102) |
| Financing activities: | | | | |
| Repurchase of common stock | (1,707) | (2,151) | (5,015) | (2,640) |
| Proceeds from issuance of common stock | 121 | 130 | 121 | 288 |
| Cash dividends paid | (757) | (817) | (1,563) | (1,645) |
| Other | — | (4) | (4) | (2) |
| Net cash used in financing activities | (2,343) | (2,842) | (6,461) | (3,999) |

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| | | | | |
|--|----------|-----------|----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (555) | (1,988) | (1,250) | (2,429) |
| Decrease in cash and cash equivalents | (563) | (8,198) | (6,672) | (12,866) |
| Cash and cash equivalents at beginning of period | 68,426 | 98,084 | 74,535 | 102,752 |
| Cash and cash equivalents at end of period | \$67,863 | \$ 89,886 | \$67,863 | \$ 89,886 |

Richardson Electronics, Ltd.**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 | Total |
|--|--------|-------------------|--------------|----------------------------------|--------------------------------|----------------------|---|------------|
| Balance May 30, 2015: | 11,530 | 2,141 | \$ 684 | \$ 63,252 | \$— | \$ 89,141 | \$ 3,575 | \$ 156,652 |
| Comprehensive loss | | | | | | | | |
| Net loss | — | — | — | — | — | (3,685) | — | (3,685) |
| Foreign currency translation | — | — | — | — | — | — | (2,152) | (2,152) |
| Fair value adjustments on investments | — | — | — | — | — | — | (32) | (32) |
| Share-based compensation: | | | | | | | | |
| Stock options | — | — | — | 315 | — | — | — | 315 |
| Common stock: | | | | | | | | |
| Options exercised | 23 | — | 1 | 120 | — | — | — | 121 |
| Repurchase of common stock | — | — | — | — | (5,015) | — | — | (5,015) |
| Cancellation of treasury stock | (855) | — | (43) | (4,972) | 5,015 | — | — | — |
| Other | — | — | — | — | — | (4) | — | (4) |
| Dividends paid to: | | | | | | | | |
| Common (\$0.12 per share) | — | — | — | — | — | (1,331) | — | (1,331) |
| Class B (\$0.108 per share) | — | — | — | — | — | (232) | — | (232) |
| Balance November 28, 2015: | 10,698 | 2,141 | \$ 642 | \$ 58,715 | \$— | \$ 83,889 | \$ 1,391 | \$ 144,637 |

RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value displays, flat panel detector solutions and replacement parts for diagnostic imaging equipment; and customized display solutions. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. The Company's strategy is to provide specialized technical expertise and "engineered solutions" based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair through its global infrastructure.

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

On June 15, 2015, Richardson Electronics, Ltd ("the Company"), acquired certain assets of International Medical Equipment and Services, Inc. ("IMES"), for a purchase price of \$12.2 million. This includes the purchase of inventory, receivables, fixed assets, and certain other assets of the Company. The Company did not acquire any liabilities of IMES. The total consideration paid excludes transaction costs and is subject to post close adjustments.

IMES, based in South Carolina, provides reliable, cost-saving solutions worldwide for major brands of CT and MRI equipment. This acquisition positions Richardson Healthcare to provide cost effective diagnostic imaging replacement parts and training to hospitals, diagnostic imaging centers, medical institutions, and independent service organizations. IMES offers an extensive selection of replacement parts, as well as an interactive training center, on-site test bays and experienced technicians who provide 24/7 customer support. Replacement parts are readily available and triple tested to provide peace of mind when uptime is critical. IMES core operations will remain in South Carolina. Richardson Healthcare plans to expand IMES' replacement parts and training offerings geographically leveraging the Company's global infrastructure.

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

Power and Microwave Technologies Group ("PMT"), launched in July 2015, combines Electron Device Group's ("EDG") core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT's 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—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. PMT 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. PMT also offers its customers technical services for both microwave and industrial equipment.

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

Healthcare manufactures, distributes and services high value replacement parts for the healthcare market including hospitals, medical centers, independent service organizations, and multi-vendor service providers. Products include power grid tubes, hydrogen thyratrons, klystrons, magnetrons; Image Systems medical displays and workstations for picture archiving and communication systems (“PACS”); visual solutions for operating rooms/surgical environments; digital radiography solutions including replacement flat panel detectors and upgrades; and additional replacement components currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings, and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

We currently have operations in the following major geographic regions: North America, Asia/Pacific, Europe, and Latin America.

2. BASIS OF PRESENTATION

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

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The first six months of fiscal 2016 and 2015 contained 26 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. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the three and six months ended November 28, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending May 28, 2016.

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 30, 2015, that we filed on July 28, 2015.

On June 15, 2015, the Company completed the acquisition of IMES. The results of the operations have been consolidated with our results following the acquisition date. For a more complete discussion of the transaction, refer to Note 4.

3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Inventories: Our consolidated inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Our inventories include approximately \$37.6 million of finished goods and \$5.5 million of raw materials and work-in-progress as of November 28, 2015, as compared to approximately \$33.7 million of finished goods and \$5.1 million of raw materials and work-in-progress as of May 30, 2015.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs. Provisions for obsolete or slow moving inventories are recorded based upon regular analysis of stock rotation privileges, obsolescence, the exiting of certain markets, and assumptions about future demand and market conditions. If future demand, changes in the industry, or market conditions differ from management's estimates, additional provisions may be necessary. The inventory reserve as of November 28, 2015, was \$3.1 million compared to \$3.0 million as of May 30, 2015.

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.

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 losses 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.

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

Income Taxes: We recognize deferred tax assets and liabilities based on the differences between financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and determine the need for a valuation allowance based on a number of factors, including both positive and negative evidence. These factors include historical taxable income or loss, projected future taxable income or loss, the expected timing of the reversals of existing temporary differences, and the implementation of tax planning strategies. In circumstances where we, or any of our affiliates, have incurred three years of cumulative losses which constitute significant negative evidence, positive evidence of equal or greater significance is needed to overcome the negative evidence before a tax benefit is recognized for deductible temporary differences and loss carryforwards.

4. ACQUISITION

On June 15, 2015, Richardson Electronics, Ltd (“the Company”), acquired certain assets of International Medical Equipment and Services, Inc. (“IMES”), for a purchase price of \$12.2 million. This includes the purchase of inventory, receivables, fixed assets, and certain other assets of the Company. The Company did not acquire any liabilities of IMES. The total consideration paid excludes transaction costs and is subject to post close adjustments.

IMES, based in South Carolina, provides reliable, cost-saving solutions worldwide for major brands of CT and MRI equipment. This acquisition positions Richardson Healthcare to provide cost effective diagnostic imaging replacement parts and training to hospitals, diagnostic imaging centers, medical institutions, and independent service organizations. IMES offers an extensive selection of replacement parts, as well as an interactive training center, on-site test bays and experienced technicians who provide 24/7 customer support. Replacement parts are readily available and triple tested to provide peace of mind when uptime is critical. IMES core operations will remain in South Carolina. Richardson Healthcare plans to expand IMES’ replacement parts and training offerings geographically to leverage the Company’s global infrastructure.

The consideration paid by the Company to IMES at closing was \$12.2 million in cash. The following table summarizes the preliminary fair values of the assets acquired at the date of the closing of the acquisition (*in thousands*):

| | |
|-------------------------------|----------|
| Accounts receivable | \$743 |
| Inventories | 1,565 |
| Property, plant and equipment | 230 |
| Goodwill | 6,271 |
| Other intangibles | 3,400 |
| Net assets acquired | \$12,209 |

Intangible assets include trade names with an estimated life of 3 years for \$0.7 million, customer relationships with an estimated life of 20 years for \$2.5 million and technology with an estimated life of 10 years for \$0.2 million.

The approximate fair values of the assets acquired related to the IMES acquisition are based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change significantly during the purchase price measurement period as we finalize the valuations of the assets acquired. Such changes could result in material variances between the Company's future financial fair values recorded and expenses associated with these items.

In connection with the Agreement, the Company also entered into an Employment, Non-Disclosure, and Non-Compete Agreement ("Employment Agreement") with Lee A. McIntyre III as the Company's Executive Vice President, IMES. During the term of his employment, Mr. McIntyre will earn an annual base salary of \$300,000. In addition to his base salary, he will be entitled to an annual bonus equal to 20% of the EBITDA of IMES provided that the EBITDA of the business is at least \$2.0 million inclusive of the bonus payment. The annual bonus payment will terminate after five years.

The following unaudited pro forma information represents the Company's results of operations as if the acquisitions had occurred as of June 1, 2014:

| \$ in thousands, except per share amounts | Three and six months ended November 29, 2014 | |
|---|--|----------|
| | 2nd Qtr | YTD |
| Net sales | \$36,247 | \$72,729 |
| Net income (loss) | \$(308) | \$(20) |
| Earnings per share: | | — |
| Common shares - Basic | \$(0.02) | \$— |
| Class B common shares - Basic | \$(0.02) | \$— |
| Common shares - Diluted | \$(0.02) | \$— |
| Class B common shares - Diluted | \$(0.02) | \$— |

The pro forma results have been prepared for informational purposes only and include adjustments to amortize acquired intangible assets with finite life and reflect foregone interest income on cash paid for the acquisitions. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the periods presented or of the results of operations that may occur in the future. The financial results for the three and six months ended November 28, 2015, include the financial results for IMES from June 15, 2015, through November 28, 2015. The financial transactions for IMES from May 31, 2015, through June 14, 2015, were deemed immaterial for illustrating pro forma financial statements.

5. GOODWILL AND INTANGIBLE ASSETS

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

| | Goodwill |
|-----------------------------------|----------|
| Balance at May 30, 2015 | \$ — |
| Premium Paid for IMES Acquisition | 6,271 |
| Balance at November 28, 2015 | \$ 6,271 |

Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment, using the first day of our fourth quarter as the measurement date. We test goodwill for impairment annually and whenever events or circumstances indicates an impairment may have occurred, such as a significant adverse change in the business climate, loss of key personnel or a decision to sell or dispose of a reporting unit. The goodwill balance in its entirety relates to our Healthcare segment.

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

Our intangible assets represent the fair value for trade name, customer relationships, non-compete agreements, and technology acquired in connection with our acquisitions. Intangible assets subject to amortization as well as amortization expense are as follows (*in thousands*):

| | Intangible Assets Subject to Amortization as of | |
|--------------------------------|---|--------------|
| | November 28, 2015 | May 30, 2015 |
| Gross Amounts: | | |
| Trade Name | \$ 729 | \$ 29 |
| Customer Relationship | 3,443 | 948 |
| Non-compete Agreements | 47 | 47 |
| Technology | 200 | — |
| Total Gross Amounts | \$ 4,419 | \$ 1,024 |
| Accumulated Amortization: | | |
| Trade Name | \$ 136 | \$ 29 |
| Customer Relationship | 359 | 221 |
| Non-compete Agreements | 45 | 31 |
| Technology | 18 | — |
| Total Accumulated Amortization | \$ 558 | \$ 281 |
| Net Intangibles | \$ 3,861 | \$ 743 |

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

| <u>Fiscal Year</u> | Amortization Expense |
|-----------------------------------|---------------------------------|
| Remaining 2016 | \$ 150 |
| 2017 | 434 |
| 2018 | 433 |
| 2019 | 200 |
| 2020 | 190 |
| Thereafter | 2,454 |
| Total amortization expense | \$ 3,861 |

The weighted average number of years of amortization expense remaining is 16.9 years.

6. INVESTMENTS

As of November 28, 2015, we had approximately \$11.1 million invested in time deposits and certificates of deposit (“CD”). Of these, \$3.7 million mature in less than twelve months and \$7.3 million mature in more than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

As of May 30, 2015, we had approximately \$34.7 million invested in time deposits and CD’s. Of this, \$23.7 million mature in less than twelve months and \$10.9 million mature in more 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 \$0.6 million at November 28, 2015, and \$0.6 million at May 30, 2015. Proceeds from the sale of securities were less than \$0.1 million during the second quarter of fiscal 2016 and fiscal 2015. We reinvested proceeds from the sale of securities, and the cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than \$0.1 million during the second quarter of fiscal 2016 and fiscal 2015. Net unrealized holding losses of less than \$0.1 million during the second quarter of fiscal 2016 and fiscal 2015, have been included in accumulated other comprehensive loss.

7. 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.

We estimate the cost to perform under the warranty obligation and recognize this estimated cost at the time of the related product sale. We record expense related to our warranty obligations as cost of sales in our consolidated statements of comprehensive income (loss). Each quarter, we assess actual warranty costs incurred on a product-by-product basis and compare the warranty costs to our estimated warranty obligation. With respect to new products, estimates are based generally on knowledge of the products, the extended warranty period, and warranty experience.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves were approximately \$0.2 million as of November 28, 2015, and as of May 30, 2015.

8. LEASE OBLIGATIONS, OTHER COMMITMENTS, AND CONTINGENCIES

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense during the first six months of fiscal 2016 was \$0.9 million and \$0.8 million during the first six months of fiscal 2015. Our future lease commitments for minimum rentals, including common area maintenance charges and property taxes during the next five years are as follows (*in thousands*):

| Fiscal Year | Payments |
|----------------|----------|
| Remaining 2016 | \$ 664 |
| 2017 | 627 |
| 2018 | 304 |
| 2019 | 254 |
| 2020 | 216 |
| Thereafter | 260 |

9. INCOME TAXES

The effective income tax rate during the first six months of fiscal 2016 was a tax provision of (20.6%), as compared to a tax benefit of 43.1% during the first six months of fiscal 2015. The difference in rate during the first six months of fiscal 2016, as compared to the first six months of fiscal 2015, is primarily driven by the impact of recording a valuation allowance against all of our U.S. state and federal net deferred tax assets, changes in our geographical distribution of income (loss), and our recording of uncertain tax positions with respect to ASC 740-30, Income Taxes - Other Considerations or Special Areas ("ASC 740-30"). The (20.6%) effective income tax rate differs from the federal statutory rate of 34.0% because of the recording of a valuation allowance against all of our U.S. state and federal net deferred tax asset, our geographical distribution of income (loss), and the settlement of an income tax audit in Germany.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2011 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local, or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. After the closure of the Germany tax audit for

fiscal years 2009 through 2011, resulting in a tax liability of \$0.3 million recorded during the first half of fiscal year 2016, we have tax years open in Germany beginning in fiscal 2012 and the Netherlands beginning in fiscal 2010.

We have historically determined that certain undistributed earnings of our foreign subsidiaries, to the extent of cash available, will be repatriated to the U.S. Accordingly, we have provided a deferred tax liability totaling \$4.5 million as of November 28, 2015, on foreign earnings of \$36.9 million. In addition, as of November 28, 2015, approximately \$20.8 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30. Due to various tax attributes that are continuously changing, it is not practicable to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of November 28, 2015, our worldwide liability for uncertain tax positions related to continuing operations is \$0.1 million, excluding interest and penalties, as compared to no liabilities for uncertain tax positions as of November 29, 2014. 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 not expected that there will be a change in the unrecognized tax benefits within the next 12 months.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant component of objective evidence evaluated was the cumulative income or loss incurred in each jurisdiction over the three-year period ended November 28, 2015. Such objective evidence limits the ability to consider other subjective evidence such as future income projections. We considered other positive evidence in determining the need for a valuation allowance in the U.S. including the repatriation of foreign earnings which we do not consider permanently reinvested in certain of our foreign subsidiaries. The weight of this positive evidence is not sufficient to outweigh other negative evidence in evaluating our need for a valuation allowance in the U.S. jurisdiction.

On the basis of this evaluation, as of November 28, 2015, a valuation allowance of \$7 million has been established to record only the portion of the deferred tax asset that will more likely than not be realized. The valuation allowance relates to deferred tax assets in foreign jurisdictions where historical taxable losses have been incurred as well as valuation allowance for all domestic federal and state net deferred tax assets considering the cumulative losses for the U.S. jurisdiction. Our valuation allowance increased \$1.4 million for additional domestic federal and state net deferred tax assets generated during the second quarter of fiscal 2016 due to additional losses in the U.S. jurisdiction. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

10. CALCULATION OF EARNINGS PER SHARE

We have authorized 17,000,000 shares of common stock, and 3,000,000 shares of Class B common 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.

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

| | For the Three Months Ended | | | |
|--|----------------------------|------------|-------------------|------------|
| | November 28, 2015 | | November 29, 2014 | |
| | Basic | Diluted | Basic | Diluted |
| Numerator for Basic and Diluted EPS: | | | | |
| Loss from continuing operations | \$(2,286) | \$(2,286) | \$(1,144) | \$(1,144) |
| Less dividends: | | | | |
| Common stock | 641 | 641 | 701 | 701 |
| Class B common stock | 116 | 116 | 116 | 116 |
| Undistributed losses | \$(3,043) | \$(3,043) | \$(1,961) | \$(1,961) |
| Common stock undistributed losses | \$(2,580) | \$(2,580) | \$(1,685) | \$(1,685) |
| Class B common stock undistributed losses | (463) | (463) | (276) | (276) |
| Total undistributed losses | \$(3,043) | \$(3,043) | \$(1,961) | \$(1,961) |
| Income from discontinued operations | \$— | \$— | \$87 | \$87 |
| Less dividends: | | | | |
| Common stock | 641 | 641 | 701 | 701 |
| Class B common stock | 116 | 116 | 116 | 116 |
| Undistributed losses | \$(757) | \$(757) | \$(730) | \$(730) |
| Common stock undistributed losses | \$(642) | \$(642) | \$(627) | \$(627) |
| Class B common stock undistributed losses | (115) | (115) | (103) | (103) |
| Total undistributed losses | \$(757) | \$(757) | \$(730) | \$(730) |
| Net loss | \$(2,286) | \$(2,286) | \$(1,057) | \$(1,057) |
| Less dividends: | | | | |
| Common stock | 641 | 641 | 701 | 701 |
| Class B common stock | 116 | 116 | 116 | 116 |
| Undistributed losses | \$(3,043) | \$(3,043) | \$(1,874) | \$(1,874) |
| Common stock undistributed losses | \$(2,580) | \$(2,580) | \$(1,610) | \$(1,610) |
| Class B common stock undistributed losses | (463) | (463) | (264) | (264) |
| Total undistributed losses | \$(3,043) | \$(3,043) | \$(1,874) | \$(1,874) |
| Denominator for basic and diluted EPS: | | | | |
| Common stock weighted average shares | 10,742 | 10,742 | 11,770 | 11,770 |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,141 | 2,141 | 2,141 | 2,141 |
| Effect of dilutive securities | | | | |
| Dilutive stock options | | — | | — |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | | 12,883 | | 13,911 |
| Loss from continuing operations per share: | | | | |
| Common stock | \$(0.18) | \$(0.18) | \$(0.08) | \$(0.08) |
| Class B common stock | \$(0.16) | \$(0.16) | \$(0.07) | \$(0.07) |
| Income from discontinued operations per share: | | | | |
| Common stock | \$— | \$— | \$0.01 | \$0.01 |
| Class B common stock | \$— | \$— | \$0.01 | \$0.01 |
| Net loss per share: | | | | |
| Common stock | \$(0.18) | \$(0.18) | \$(0.07) | \$(0.07) |
| Class B common stock | \$(0.16) | \$(0.16) | \$(0.06) | \$(0.06) |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2016 and fiscal 2015 were 823,539 and 666,564, respectively.

| | Six Months Ended | | | |
|--|-------------------|------------|-------------------|------------|
| | November 28, 2015 | | November 29, 2014 | |
| | Basic | Diluted | Basic | Diluted |
| Numerator for Basic and Diluted EPS: | | | | |
| Loss from continuing operations | \$(3,685) | \$(3,685) | \$(1,227) | \$(1,227) |
| Less dividends: | | | | |
| Common stock | 1,331 | 1,331 | 1,411 | 1,411 |
| Class B common stock | 232 | 232 | 234 | 234 |
| Undistributed losses | \$(5,248) | \$(5,248) | \$(2,872) | \$(2,872) |
| Common stock undistributed losses | \$(4,473) | \$(4,473) | \$(2,466) | \$(2,466) |
| Class B common stock undistributed losses | (775) | (775) | (406) | (406) |
| Total undistributed losses | \$(5,248) | \$(5,248) | \$(2,872) | \$(2,872) |
| Income from discontinued operations | \$— | \$— | \$87 | \$87 |
| Less dividends: | | | | |
| Common stock | 1,331 | 1,331 | 1,411 | 1,411 |
| Class B common stock | 232 | 232 | 234 | 234 |
| Undistributed losses | \$(1,563) | \$(1,563) | \$(1,558) | \$(1,558) |
| Common stock undistributed losses | \$(1,332) | \$(1,332) | \$(1,337) | \$(1,337) |
| Class B common stock undistributed losses | (231) | (231) | (221) | (221) |
| Total undistributed losses | \$(1,563) | \$(1,563) | \$(1,558) | \$(1,558) |
| Net loss | \$(3,685) | \$(3,685) | \$(1,140) | \$(1,140) |
| Less dividends: | | | | |
| Common stock | 1,331 | 1,331 | 1,411 | 1,411 |
| Class B common stock | 232 | 232 | 234 | 234 |
| Undistributed losses | \$(5,248) | \$(5,248) | \$(2,785) | \$(2,785) |
| Common stock undistributed losses | \$(4,473) | \$(4,473) | \$(2,391) | \$(2,391) |
| Class B common stock undistributed losses | (775) | (775) | (394) | (394) |
| Total undistributed losses | \$(5,248) | \$(5,248) | \$(2,785) | \$(2,785) |
| Denominator for basic and diluted EPS: | | | | |
| Common stock weighted average shares | 11,114 | 11,114 | 11,797 | 11,797 |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,141 | 2,141 | 2,161 | 2,161 |
| Effect of dilutive securities | | | | |
| Dilutive stock options | | — | | — |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | | 13,255 | | 13,958 |
| Loss from continuing operations per share: | | | | |
| Common stock | \$(0.28) | \$(0.28) | \$(0.09) | \$(0.09) |
| Class B common stock | \$(0.25) | \$(0.25) | \$(0.08) | \$(0.08) |
| Income from discontinued operations per share: | | | | |
| Common stock | \$— | \$— | \$0.01 | \$0.01 |
| Class B common stock | \$— | \$— | \$0.01 | \$0.01 |
| Net loss per share: | | | | |
| Common stock | \$(0.28) | \$(0.28) | \$(0.08) | \$(0.08) |
| Class B common stock | \$(0.25) | \$(0.25) | \$(0.07) | \$(0.07) |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2016 and fiscal 2015 were 805,164 and 661,564, respectively.

11. SEGMENT REPORTING

During the first quarter of fiscal 2015, we created a new strategic business unit called Healthcare. As hospitals remain under pressure to reduce costs while serving a much larger customer base, there is a growing demand for independent sources of high value replacement parts for diagnostic imaging. Having access to parts that are tested and in stock enables hospitals to terminate expensive service contracts with OEM and instead use third party service providers or in-house technicians. With our global infrastructure, technical sales team, and experience servicing the healthcare market, we are well positioned to take advantage of this market opportunity. Over time, our plan is to expand our position from being the leader in power grid tubes to a key player in the high growth, high profile healthcare industry.

In accordance with ASC 280-10, Segment Reporting, we have identified three reportable segments: PMT, Canvys, and Healthcare.

Power and Microwave Technologies Group (“PMT”), launched in July 2015, combines Electron Device Group’s (“EDG”) core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT’s 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—all through our existing global infrastructure. PMT’s focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. PMT 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. PMT also offers its customers technical services for both microwave and industrial equipment.

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

Healthcare manufactures, distributes and services high value replacement parts for the healthcare market including hospitals, medical centers, independent service organizations, and multi-vendor service providers. Products include power grid tubes, hydrogen thyratrons, klystrons, magnetrons; Image Systems medical displays and workstations for picture archiving and communication systems (“PACS”); visual solutions for operating rooms/surgical environments; digital radiography solutions including replacement flat panel detectors and upgrades; and additional replacement components currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings, and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

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

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

| | Three Months Ended | | Six Months Ended | |
|--------------|--------------------|---------------|------------------|---------------|
| | November 2015 | November 2014 | November 2015 | November 2014 |
| PMT | | | | |
| Net Sales | \$25,162 | \$26,787 | \$52,357 | \$54,225 |
| Gross Profit | 7,515 | 8,537 | 15,653 | 17,223 |

Canvys

| | | | | |
|-----------|---------|----------|----------|-----------|
| Net Sales | \$5,902 | \$ 5,906 | \$12,583 | \$ 11,874 |
|-----------|---------|----------|----------|-----------|

| | | | | |
|--------------|-------|-------|-------|-------|
| Gross Profit | 1,526 | 1,653 | 3,235 | 3,309 |
|--------------|-------|-------|-------|-------|

Healthcare

| | | | | |
|-----------|---------|----------|---------|----------|
| Net Sales | \$3,022 | \$ 1,148 | \$6,217 | \$ 2,441 |
|-----------|---------|----------|---------|----------|

| | | | | |
|--------------|-------|-----|-------|-----|
| Gross Profit | 1,394 | 272 | 2,809 | 588 |
|--------------|-------|-----|-------|-----|

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 | | Six Months Ended | |
|---------------|--------------------|-------------------|-------------------|-------------------|
| | November 28, 2015 | November 29, 2014 | November 28, 2015 | November 29, 2014 |
| Net Sales | | | | |
| North America | \$ 15,032 | \$ 13,769 | \$ 32,824 | \$ 28,468 |
| Asia/Pacific | 5,832 | 5,918 | 11,964 | 12,424 |
| Europe | 11,765 | 12,082 | 23,123 | 23,131 |
| Latin America | 1,455 | 2,207 | 3,062 | 4,528 |
| Other (1) | 2 | (135) | 184 | (11) |
| Total | \$ 34,086 | \$ 33,841 | \$ 71,157 | \$ 68,540 |
| Gross Profit | | | | |
| North America | \$ 5,138 | \$ 4,847 | \$ 11,337 | \$ 10,030 |
| Asia/Pacific | 1,859 | 1,994 | 3,815 | 4,113 |
| Europe | 3,514 | 4,028 | 6,855 | 7,747 |
| Latin America | 549 | 811 | 1,174 | 1,689 |
| Other (1) | (625) | (1,218) | (1,484) | (2,459) |
| Total | \$ 10,435 | \$ 10,462 | \$ 21,697 | \$ 21,120 |

(1) Other includes primarily net sales not allocated to a specific geographical region, unabsorbed value-add costs, and other unallocated expenses.

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.

12. 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 is less than a reasonable possibility that a material loss will be incurred.

13. FAIR VALUE MEASUREMENTS

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

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

assumptions.

As of November 28, 2015, 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.

15

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of November 28, 2015, and May 30, 2015, were as follows (*in thousands*):

| | Level 1 |
|-------------------|-----------|
| November 28, 2015 | |
| Time deposits/CDs | \$ 11,052 |
| Equity securities | 564 |
| Total | \$ 11,616 |
| May 30, 2015 | |
| Time deposits/CDs | \$ 34,665 |
| Equity securities | 576 |
| Total | \$ 35,241 |

14. Related Party Transaction

On June 15, 2015, the Company entered into a lease agreement for the IMES facility with LDL, LLC. The Executive Vice President of IMES, Lee A. McIntyre III, has an ownership interest in LDL, LLC. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.7 million. Rental expense related to this lease amounted to \$0.1 million for the six months ended November 28, 2015. The Company shall be entitled to extend the term of the lease for a period of an additional five years by notifying the landlord in writing of its intention to do so within six months of the expiration of the initial term.

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 28, 2015. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial

condition, critical accounting policies and estimates, and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes appearing elsewhere in this filing. This section is organized as follows:

Business Overview- a brief synopsis of our Company for the periods ended November 28, 2015, and November 29, 2014.

Results of Operations – an analysis and comparison of our consolidated results of operations for the three and six month periods ended November 28, 2015, and November 29, 2014, as reflected in our consolidated statements of comprehensive loss.

Liquidity, Financial Position, and Capital Resources – a discussion of our primary sources and uses of cash for the three and six month periods ended November 28, 2015, and November 29, 2014, and a discussion of changes in our financial position.

Business Overview

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value displays, flat panel detector solutions and replacement parts for diagnostic imaging equipment; and customized display solutions. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. The Company's strategy is to provide specialized technical expertise and "engineered solutions" based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair through its global infrastructure.

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

On June 15, 2015, Richardson Electronics, Ltd ("the Company"), acquired certain assets of International Medical Equipment and Services, Inc. ("IMES"), for a purchase price of \$12.2 million. This includes the purchase of inventory, receivables, fixed assets, and certain other assets of the Company. The Company did not acquire any liabilities of IMES. The total consideration paid excludes transaction costs and is subject to post close adjustments.

IMES, based in South Carolina, provides reliable, cost-saving solutions worldwide for major brands of CT and MRI equipment. This acquisition positions Richardson Healthcare to provide cost effective diagnostic imaging replacement parts and training to hospitals, diagnostic imaging centers, medical institutions, and independent service organizations. IMES offers an extensive selection of replacement parts, as well as an interactive training center, on-site test bays and experienced technicians who provide 24/7 customer support. Replacement parts are readily available and triple tested to provide peace of mind when uptime is critical. IMES core operations will remain in South Carolina. Richardson Healthcare plans to expand IMES' replacement parts and training offerings geographically to leverage the Company's global infrastructure.

We have three operating segments which we define as follows:

Power and Microwave Technologies Group ("PMT"), launched in July 2015, combines Electron Device Group's ("EDG") core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT's 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—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. PMT 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. PMT also offers its customers technical services for both microwave and industrial equipment.

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

Healthcare manufactures, distributes and services high value replacement parts for the healthcare market including hospitals, medical centers, independent service organizations, and multi-vendor service providers. Products include

power grid tubes, hydrogen thyratrons, klystrons, magnetrons; Image Systems medical displays and workstations for picture archiving and communication systems (“PACS”); visual solutions for operating rooms/surgical environments; digital radiography solutions including replacement flat panel detectors and upgrades; and additional replacement components currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings, and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

We currently have operations in North America, Asia/Pacific, Europe, and Latin America.

RESULTS OF OPERATIONS

Financial Summary – Three Months Ended November 28, 2015

- Net sales for the second quarter of fiscal 2016 were \$34.1 million, an increase of 0.7%, compared to net sales of \$33.8 million during the second quarter of fiscal 2015.
- Gross margin decreased to 30.6% during the second quarter of fiscal 2016, compared to 30.9% during the second quarter of fiscal 2015.
- Selling, general, and administrative expenses increased to \$13.2 million, or 38.7% of net sales, for the second quarter of fiscal 2016, compared to \$12.6 million, or 37.3% of net sales, for the second quarter of fiscal 2015.
- Operating loss during the second quarter of fiscal 2016 was \$2.5 million, compared to an operating loss of \$2.2 million during the second quarter of fiscal 2015.
- Net loss during the second quarter of fiscal 2016 was \$2.3 million, compared to net loss of \$1.1 million, during the second quarter of fiscal 2015.

Financial Summary – Six Months Ended November 28, 2015

- Net sales for the first six months of fiscal 2016 were \$71.2 million, an increase of 3.8%, compared to net sales of \$68.5 million during the first six months of fiscal 2015.
- Gross margin decreased to 30.5% during the first six months of fiscal 2016, compared to 30.8% during the first six months of fiscal 2015.
- Selling, general, and administrative expenses increased to \$25.5 million, or 35.8% of net sales, for the first six months of fiscal 2016, compared to \$23.8 million, or 34.7% of net sales, for the first six months of fiscal 2015.
- Operating loss during the first six months of fiscal 2016 was \$3.5 million, compared to an operating loss of \$2.7 million during the first six months of fiscal 2015.
- Net loss during the first six months of fiscal 2016 was \$3.7 million, compared to net loss of \$1.1 million, during the first six months of fiscal 2015.

Net Sales and Gross Profit Analysis

Net sales by segment and percent change for the second quarter and first six months of fiscal 2016 and 2015 were as follows (*in thousands*):

| <u>Net Sales</u> | Three Months Ended | | FY16 vs. FY15 | |
|------------------|--------------------|-------------------|---------------|---|
| | November 28, 2015 | November 29, 2014 | % Change | |
| PMT | \$25,162 | \$26,787 | -6.1 | % |
| Canvys | 5,902 | 5,906 | -0.1 | % |
| Healthcare | 3,022 | 1,148 | 163.2 | % |
| Total | \$34,086 | \$33,841 | 0.7 | % |

| | Six Months Ended | | FY16 vs. FY15 | |
|------------|-------------------|-------------------|---------------|---|
| | November 28, 2015 | November 29, 2014 | % Change | |
| PMT | \$52,357 | \$54,225 | -3.4 | % |
| Canvys | 12,583 | 11,874 | 6.0 | % |
| Healthcare | 6,217 | 2,441 | 154.7 | % |
| Total | \$71,157 | \$68,540 | 3.8 | % |

During the second quarter of fiscal 2016 consolidated net sales increased 0.7% compared to the second quarter of fiscal 2015. Sales for PMT declined 6.1%, sales for Canvys were flat, and sales for Healthcare increased 163.2%, which was primarily due to the acquisition of IMES.

During the first six months of fiscal 2016 consolidated net sales increased 3.8% compared to the first six months of fiscal 2015. Sales for PMT declined 3.4%, sales for Canvys increased 6%, and sales for Healthcare increased 154.7%, which was primarily due to the acquisition of IMES.

Gross profit by segment and percent change for the second quarter and first six months of fiscal 2016 and 2015 were as follows (*in thousands*):

Gross Profit Three Months Ended

| | November 28, 2015 | % of Net Sales | November 29, 2014 | % of Net Sales |
|------------|----------------------|----------------|----------------------|----------------------|
| PMT | \$7,515 | 29.9 | % \$8,537 | 31.9% |
| Canvys | 1,526 | 25.9 | % 1,653 | 28.0% |
| Healthcare | 1,394 | 46.1 | % 272 | 23.7% |
| Total | \$10,435 | 30.6 | % \$10,462 | 30.9% |

Six Months Ended

| | November 28, 2015 | % of Net Sales | November 29, 2014 | % of Net Sales |
|------------|----------------------|----------------|----------------------|----------------------|
| PMT | \$15,653 | 29.9 | % \$17,223 | 31.8% |
| Canvys | 3,235 | 25.7 | % 3,309 | 27.9% |
| Healthcare | 2,809 | 45.2 | % 588 | 24.1% |
| Total | \$21,697 | 30.5 | % \$21,120 | 30.8% |

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

Consolidated gross profit was \$10.4 million during the second quarter of fiscal 2016, compared to \$10.5 million during the second quarter of fiscal 2015. Consolidated gross margin as a percentage of net sales decreased to 30.6% during the second quarter of fiscal 2016, from 30.9% during the second quarter of fiscal 2015, primarily due to shifts in product and geographic mix and foreign exchange fluctuations which were offset by higher margins and sales of IMES products.

Consolidated gross profit was \$21.7 million during the first six months of fiscal 2016, compared to \$21.1 million during the first six months of fiscal 2015. Consolidated gross margin as a percentage of net sales decreased to 30.5% during the first six months of fiscal 2016, from 30.8% during the first six months of fiscal 2015, primarily due to shifts in product and geographic mix and foreign exchange fluctuations which were offset by higher margins and sales of IMES products.

Power and Microwave Technologies Group

PMT net sales decreased 6.1% to \$25.2 million during the second quarter of fiscal 2016, from \$26.8 million during the second quarter of fiscal 2015. Sales of power conversion and RF and microwave components increased offset by a decline in the aviation and broadcast markets along with specialty products manufactured in LaFox and sold primarily into the semiconductor capital equipment market. Gross margin as a percentage of net sales decreased to 29.9% during the second quarter of fiscal 2016, as compared to 31.9% during the second quarter of fiscal 2015, due to an increase in unabsorbed labor and overhead costs in our LaFox manufacturing facility along with a shift in product mix and currency fluctuations.

PMT net sales decreased 3.4% to \$52.4 million during the first six months of fiscal 2016, from \$54.2 million during the first six months of fiscal 2015. Sales of power conversion and RF and microwave components increased offset by a decline in the aviation and broadcast markets. Gross margin as a percentage of net sales decreased to 29.9% during the first six months of fiscal 2016, as compared to 31.8% during the first six months of fiscal 2015, due to an increase in unabsorbed labor and overhead costs in our LaFox manufacturing facility along with a shift in product mix and currency fluctuations.

Canvys

Canvys net sales during the second quarter of fiscal 2016 were flat compared to the second quarter of fiscal 2015 at \$5.9 million. Gross margin as a percentage of net sales decreased to 25.9% during the second quarter of fiscal 2016 as compared to 28.0% during the second quarter of fiscal 2015, due to continued price pressure and currency fluctuations.

Canvys net sales increased 6.0% to \$12.6 million during the first six months of fiscal 2016, from \$11.9 million during the first six months of fiscal 2015. Sales in our North America and Europe markets both increased due to an increased overall demand from our key customers, which had been delaying new program startups in the prior year. Gross margin as a percentage of net sales decreased to 25.7% during the first six months of fiscal 2016 as compared to 27.9% during the first six months of fiscal 2015, due to continued price pressure and currency fluctuations.

Healthcare

Healthcare net sales increased 163.2% to \$3.0 million during the second quarter of fiscal 2016, from \$1.1 million during the second quarter of fiscal 2015. Sales increased primarily from the acquisition of IMES. Gross margin as a percentage of net sales increased to 46.1% during the second quarter of fiscal 2016 as compared to 23.7% during the second quarter of fiscal 2015 due to product mix. The IMES products carry significantly higher margins than the PACS display sales.

Healthcare net sales increased 154.7% to \$6.2 million during the first six months of fiscal 2016, from \$2.4 million during the first six months of fiscal 2015. Sales increased primarily from the acquisition of IMES, while sales also increased in the PACS display market. Gross margin as a percentage of net sales increased to 45.2% during the first six months of fiscal 2016 as compared to 24.1% during the first six months of fiscal 2015 due to product mix. The IMES products carry significantly higher margins than the PACS display sales.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (“SG&A”) increased to \$13.2 million during the second quarter of fiscal 2016 from \$12.6 million during the second quarter of fiscal 2015. The increase in SG&A was due to \$1.4 million of expenses related to the IMES and additional investments in our Richardson Healthcare to support its growth objectives partially offset by reductions of \$0.5 million in our support functions and \$0.3 million in PMT.

Selling, general, and administrative expenses (“SG&A”) increased to \$25.5 million during the first six months of fiscal 2016 from \$23.8 million during the first six months of fiscal 2015. The increase in SG&A was due to \$2.5 million of expenses related to the IMES and additional investments in our Richardson Healthcare to support its growth objectives partially offset by reductions in our support functions of \$0.5 million, PMT of \$0.1 million, and Canvys of \$0.2 million.

Other Income/Expense

Other income/expense was \$0.5 million of income during the second quarter of fiscal 2016, compared to income of \$0.2 million during the second quarter of fiscal 2015. Other income/expense during the second quarter of fiscal 2016 included \$0.1 million of investment and interest income, \$0.3 million of foreign exchange gains, and \$0.1 million of other income. Other income/expense during the second quarter of fiscal 2015 included \$0.2 million of investment and interest income. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other income/expense was \$0.5 million of income during the first six months of fiscal 2016 and fiscal 2015. Other income/expense during the first six months of fiscal 2016 included \$0.3 million of investment and interest income and \$0.2 million of foreign exchange gains. Other income/expense during the first six months of fiscal 2015 included \$0.5 million of investment and interest income. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Income Tax Provision

The effective income tax rate during the first six months of fiscal 2016 was a tax provision of (20.6%), as compared to a tax benefit of 43.1% during the first six months of fiscal 2015. The difference in rate during the first six months of fiscal 2016, as compared to the first six months of fiscal 2015, is primarily driven by the impact of recording a

valuation allowance against all of our U.S. state and federal net deferred tax assets, changes in our geographical distribution of income (loss), and our recording of uncertain tax positions with respect to ASC 740-30, Income Taxes - Other Considerations or Special Areas (“ASC 740-30”). The (20.6%) effective income tax rate differs from the federal statutory rate of 34.0% because of the recording of a valuation allowance against all of our U.S. state and federal net deferred tax asset, our geographical distribution of income (loss), and the settlement of an income tax audit in Germany.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2011 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local, or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. After the closure of the Germany tax audit for fiscal years 2009 through 2011, resulting in a tax liability of \$0.3 million recorded during the first half of fiscal year 2016, we have tax years open in Germany beginning in fiscal 2012 and the Netherlands beginning in fiscal 2010.

Net Loss and Per Share Data

Net loss during the second quarter of fiscal 2016 was \$2.3 million, or (\$0.18) per diluted common share and (\$0.16) per Class B diluted common share, as compared to net loss of \$1.1 million during the second quarter of fiscal 2015, or (\$0.07) per diluted common share and (\$0.06) per Class B diluted common share.

Net loss during the first six months of fiscal 2016 was \$3.7 million, or (\$0.28) per diluted common share and (\$0.25) per Class B diluted common share, as compared to net loss of \$1.1 million during the first six months of fiscal 2015, or (\$0.08) per diluted common share and (\$0.07) 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 and cash on hand. Cash and cash equivalents for the second quarter ended November 28, 2015, were \$67.9 million. In addition, CDs and time deposits classified as short-term investments were \$3.7 million and long-term investments were \$7.9 million, including equity securities of \$0.6 million. Cash and investments at November 28, 2015, consisted of \$22.8 million in North America, \$15.0 million in Europe, \$0.9 million in Latin America, and \$40.8 million in Asia/Pacific. As of May 30, 2015, cash and cash equivalents were \$74.5 million. In addition, CDs and time deposits classified as short-term investments were \$23.7 million and long-term investments were \$11.5 million, including equity securities of \$0.6 million. Cash and investments as of May 30, 2015, consisted of \$51.1 million in North America, \$16.6 million in Europe, \$0.7 million in Latin America, and \$41.3 million in Asia/Pacific.

Cash Flows from Operating Activities

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

Operating activities used \$8.8 million of cash during the first six months of fiscal 2016. We had net loss of \$3.7 million during the first six months of fiscal 2016, which included non-cash stock-based compensation expense of \$0.3 million associated with the issuance of stock option awards and depreciation and amortization expense of \$1.3 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, was a use of cash of \$6.7 million during the first six months of fiscal 2016, due primarily to the increase in inventories of \$3.5 million, the decrease in our accounts payable of \$2.0 million, and the decrease in accrued liabilities of \$1.2 million.

Operating activities used \$2.3 million of cash during the first six months of fiscal 2015. We had a net loss of \$1.1 million during the first six months of fiscal 2015, which included non-cash stock-based compensation expense of \$0.4 million associated with the issuance of stock option awards and depreciation and amortization expense of \$0.8 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, used \$2.2 million of cash during the first six months of fiscal 2015, due primarily to the increase in our inventory of \$4.3 million, an increase in our prepaid expenses and other assets of \$0.9 million, partially offset by a decrease in our income tax receivable of \$2.9 million and by an increase in our accounts payable of \$1.5 million. The increase in our inventory of \$4.3 million was due to increased purchases to support some of our future growth initiatives. The increase in our payables of \$1.5 million relates primarily to timing of payments to some of our major suppliers. Our accounts receivable balance was a small use of cash of \$0.3 million caused by shifts in our customer mix by geography.

Cash Flows from Investing Activities

The cash flow from investing activities has consisted primarily of purchases and maturities of investments, capital expenditures, and any business acquisition activity.

Cash provided by investing activities of \$9.9 million during the first six months of fiscal 2016, included proceeds from the maturities of investments of \$25.6 million and proceeds from the sale of our building in Spain of \$0.4 million, offset by the acquisition of IMES of \$12.2 million, purchases of investments of \$2.1 million, and \$1.8 million in capital expenditures. Capital expenditures of \$0.8 million relates primarily to our Healthcare growth initiatives.

Cash used in investing activities of \$4.1 million during the first six months of fiscal 2015 included proceeds from the maturities of investments of \$31.2 million, offset by the purchase of investments of \$33.3 million, and \$1.9 million in capital expenditures.

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

Cash Flows from Financing Activities

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

Cash used in financing activities of \$6.5 million during the first six months of fiscal 2016, resulted from \$5.0 million of cash used to repurchase common stock under our share repurchase authorization and \$1.6 million of cash used to pay dividends, offset by \$0.1 million of proceeds from the issuance of common stock.

Cash used in financing activities of \$4.0 million during the first six months of fiscal 2015 resulted from \$2.6 million of cash used to repurchase common stock under our share repurchase authorization and \$1.6 million of cash used to pay dividends, offset by \$0.3 million of proceeds from the issuance of common stock.

Dividend payments for the first six months of fiscal 2016 were approximately \$1.6 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 May 28, 2016.

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 30, 2015, filed July 28, 2015.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of November 28, 2015.

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 second quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 30, 2015, filed July 28, 2015.

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

| Period Ended | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Amount of Shares Purchased Under the Plans or Programs | Amount Remaining Under the Share Repurchase Authorization |
|---------------------|---|-------------------------------------|---|--|--|
| 30-May-15 | | | | | \$ 14,625,569 |
| 29-Aug-15 | 567,213 | \$ 5.83 | 567,213 | \$3,307,543 | \$ 11,318,026 |
| 26-Sept-15 | 172,519 | \$ 5.93 | 172,519 | \$1,023,272 | \$ 10,294,754 |
| 24-Oct-15 | 115,132 | \$ 5.94 | 115,132 | \$683,901 | \$ 9,610,853 |
| TOTAL | 854,864 | \$ 5.87 | 854,864 | \$5,014,716 | |

ITEM 5. OTHER INFORMATION**Amended and restated by-laws of the Company**

On January 5, 2016, the board of directors amended and restated article IV, of the Company's by-laws. The first amendment is the addition of a chief operating officer in article IV, section 1. The second amendment was a change to article IV, section 4, removing the chief operating officer responsibilities from the Company's president. The third amendment included adding the duties and responsibilities of the Company's chief operating officer in article IV, section 6. The amended and restated by-laws are furnished as Exhibit 3.2 to this Form 10-Q and incorporated by reference herein.

Results of Operation and Financial Condition and Declaration of Dividend

On January 6, 2016, we issued a press release reporting results for our second quarter ended November 28, 2015, 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.

SIGNATURES

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

RICHARDSON ELECTRONICS, LTD.

Date: January 7, 2016 By: /s/ Robert J. Ben
Robert J. Ben

Chief Financial Officer

(on behalf of the Registrant and

as Principal Financial Officer)

Exhibit Index

(c) EXHIBITS

Exhibit

Description

Number

| | |
|------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Annex III of the Proxy Statement dated August 21, 2015. |
| 3.2 | Amended and Restated By-Laws of the Company, approved by the Company's board of directors on January 5, 2016. |
| 31.1 | <u>Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).</u> |
| 31.2 | <u>Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).</u> |
| 32 | <u>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).</u> |
| 99.1 | <u>Press release, dated January 6, 2016.</u> |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2016, filed with the SEC on January 7, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of November 28, 2015, and May 30, 2015, (ii) the Unaudited Consolidated Statements of Comprehensive Income for the three months ended November 28, 2015, and November 29, 2014, (iii) the Unaudited Consolidated Statements of Cash Flows for the three months ended November 28, 2015, and November 29, 2014, (iv) the Unaudited Consolidated Statement of Stockholder's Equity as of November 28, 2015, and (v) Notes to Unaudited Consolidated Financial Statements. |

25