RICHARDSON ELECTRONICS LTD/DE
Form 10-Q/A
August 31, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended December 3, 2005

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. x Yes ¨ No

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

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

As of January 10, 2006, there were outstanding 14,322,003 shares of Common Stock, $.05 par value, inclusive of 1,328,961 shares held in treasury, and 3,103,190 shares of Class B Common Stock, $.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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EXPLANATORY NOTE (Amendment No. 1)

Richardson Electronics, Ltd. (the Company) is filing this first amendment to its Form 10-Q for the three-month period ended December 3, 2005, which was previously filed with the Securities and Exchange Commission (the SEC) on January 10, 2006, to amend and restate its condensed consolidated financial statements and other financial information for the Company s three and six month periods ended December 3, 2005 and November 27, 2004.

On April 4, 2006, the Company concluded that its previously issued condensed consolidated financial statements, including those for its three and six month periods ended December 3, 2005 and November 27, 2004, should not be relied upon as a result of errors discovered by the Company in the accounts of an Italian subsidiary, RES S.r.l. (Ingenium). The unaudited condensed consolidated financial statements for the three-month and six-month periods ended December 3, 2005 and November 27, 2004, included herein, have been restated to correct these errors and certain other errors (see Note B of the notes to the condensed consolidated financial statements). The restatement changed net income for the three and six months ended December 3, 2005 from $474,000 and $2,036,000, respectively, to $293,000 and $2,113,000, respectively, and the net income for the three and six months ended November 27, 2004 from $4,045,000 and $4,851,000, respectively, to $3,290,000 and $4,194,000, respectively.

For the convenience of the reader, this Form 10-Q/A sets forth the original Form 10-Q in its entirety and no attempt has been made in this Form 10-Q/A to modify or update the disclosures in the original Form 10-Q except as required to reflect the effects of the restatement described in Note B to the notes to the condensed consolidated financial statements and to amend certain disclosures in response to comments received from the SEC staff arising from their review of the Company s filings on Form S-1 as filed on February 7, 2006 since the date of the filing of the original Form 10-Q. Except as otherwise noted herein, this Form 10-Q/A continues to describe conditions of the Company as of the date of the Form 10-Q, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the original Form 10-Q, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the original Form 10-Q have not been revised to reflect events, results or developments that occurred or facts that became known to the Company after the date of the original Form 10-Q (other than those directly affected by the restatement), and such forward-looking statements should be read in conjunction with the Company s filings with the SEC subsequent to the filing of the original Form 10-Q.

Part I Item 1 (Financial Statements), and Part I Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations) have been amended from the original Form 10-Q as a result of the restatement and the SEC s comments resulting from its periodic review of the Company s filings under the Securities Exchange Act of 1934 since the date of the original Form 10-Q.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Richardson Electronics, Ltd.

Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

	Unaudited December 3, 2005 (restated)	May 28, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 14,776	$ 24,301
Receivables, less allowance of $1,826 and $1,934	108,468	106,152
Inventories	111,375	101,555
Prepaid expenses	4,193	3,380
Deferred income taxes	5,357	4,911
Total current assets	244,169	240,299
Other assets:		
Property, plant and equipment, net	31,729	31,712
Goodwill	12,430	6,149
Other intangible assets, net	2,295	1,045
Assets held for sale	160	
Other assets	4,686	4,735
Total other assets	51,300	43,641
Total assets	$ 295,469	$ 283,940
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 50,219	$ 40,392
Accrued liabilities	24,679	23,762
Current portion of long-term debt	23,426	22,305
Total current liabilities	98,324	86,459
Non-current liabilities:		

Long-term debt, less current portion	94,698	98,028
Non-current deferred income taxes	661	656
Non-current liabilities	1,009	1,401
Total non-current liabilities	96,368	100,085
Total liabilities	194,692	186,544
Stockholders equity:		
Common stock, $.05 par value; issued 15,644 shares at December 3, 2005 and 15,597 shares at May 28, 2005	782	780
Class B common stock, convertible, $.05 par value; issued 3,110 shares at December 3, 2005 and 3,120 shares at May 28, 2005	155	156
Preferred stock, $1.00 par value, no shares issued		
Additional paid-in capital	120,492	121,591
Common stock in treasury, at cost; 1,329 shares at December 3, 2005 and 1,332 shares at May 28, 2005	(7,876)	(7,894)
Accumulated deficit	(14,293)	(16,406)
Accumulated other comprehensive income (loss)	1,517	(831)
Total stockholders equity	100,777	97,396
Total liabilities and stockholders equity	$ 295,469	$ 283,940

See notes to condensed consolidated financial statements.

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Richardson Electronics, Ltd.

Condensed Consolidated Statements of Operations

and Comprehensive Income

(Unaudited) (in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 3, 2005 (restated)	November 27, 2004 (restated)	December 3, 2005 (restated)	November 27, 2004 (restated)
Statements of Operations				
Net sales	$ 155,837	$ 151,274	$ 313,982	$ 289,721
Cost of sales	116,331	115,412	235,944	220,004
Gross margin	39,506	35,862	78,038	69,717
Selling, general and administrative expenses	32,283	32,126	65,264	61,602
Gain on disposal of assets	(22)	(17)	(162)	(27)
Operating income	7,245	3,753	12,936	8,142
Other (income) expense:				
Interest expense	2,320	2,184	4,597	4,441
Investment income	(23)		(131)	
Foreign exchange (gain) loss	3,819	(3,299)	3,682	(2,398)
Other, net	131	(89)	175	(52)
Total other (income) expense	6,247	(1,204)	8,323	1,991
Income before income taxes	998	4,957	4,613	6,151
Income tax provision	705	1,667	2,500	1,957
Net income	$ 293	$ 3,290	$ 2,113	$ 4,194
Net income per share, as restated:				
Net income per share basic:				
Common stock	$ 0.02	$ 0.19	$ 0.12	$ 0.26
Common stock average shares outstanding	14,293	14,126	14,284	13,420
Class B common stock	$ 0.02	$ 0.17	$ 0.11	$ 0.23
Class B common stock average shares outstanding	3,110	3,158	3,110	3,158
Net income per share diluted:				

Common stock	$ 0.02	$ 0.19	$ 0.12	$ 0.25
Common stock average shares outstanding	17,462	17,479	17,475	16,801
Class B common stock	$ 0.02	$ 0.17	$ 0.11	$ 0.23
Class B common stock average shares outstanding	3,110	3,158	3,110	3,158
Dividends per common share	$ 0.040	$ 0.040	$ 0.080	$ 0.080
Dividends per Class B common share	$ 0.036	$ 0.036	$ 0.072	$ 0.072
Statements of Comprehensive Income				
Net income	$ 293	$ 3,290	$ 2,113	$ 4,194
Foreign currency translation	173	1,481	1,380	1,484
Fair value adjustments on investments, net of income tax effect	118	(23)	76	59
Cash flow hedges, net of income tax effect				41
Comprehensive income	$ 584	$ 4,748	$ 3,569	$ 5,778

See notes to condensed consolidated financial statements.

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Richardson Electronics, Ltd.

Condensed Consolidated Statements of Cash Flows

(Unaudited) (in thousands)

	Three Months Ended		Six Months Ended	
	December 3, 2005 (restated)	November 27, 2004 (restated)	December 3, 2005 (restated)	November 27, 2004 (restated)
Operating activities:				
Net income	$ 293	$ 3,290	$ 2,113	$ 4,194
Adjustments to reconcile net income to cash provided by (used in) operating activities:				
Depreciation and amortization	1,549	1,238	3,065	2,624
Gain on disposal of assets	(22)	(17)	(162)	(27)
Deferred income taxes	(507)	1,908	(484)	2,310
Receivables	(5,968)	(4,828)	(1,963)	(4,023)
Inventories	900	(405)	(6,503)	(11,014)
Accounts payable and accrued liabilities	2,497	(391)	9,243	2,428
Other liabilities	87	2,650	(332)	(2,271)
Other	3,218	(2,726)	1,870	(2,991)
Net cash provided by (used in) operating activities	2,047	719	6,847	(8,770)
Investing activities:				
Capital expenditures	(1,667)	(2,397)	(2,737)	(4,695)
Proceeds from sale of assets	33	5	274	12
Business acquisitions, net of cash acquired	(309)		(6,833)	(545)
Proceeds from sales of available-for-sale securities	335	990	736	1,134
Purchases of available-for-sale securities	(335)	(990)	(736)	(1,134)
Net cash used in investing activities	(1,943)	(2,392)	(9,296)	(5,228)
Financing activities:				
Proceeds from borrowings	67,827	16,500	90,097	36,500
Payments on debt	(70,663)	(11,037)	(94,183)	(49,793)
Proceeds from issuance of common stock	197	22	283	27,915
Cash dividends	(684)	(680)	(1,366)	(1,359)
Other	(1,066)	(326)	(1,338)	(326)
Net cash provided by (used in) financing activities	(4,389)	4,479	(6,507)	12,937
Effect of exchange rate changes on cash and cash equivalents	(645)	1,166	(569)	1,057
Increase (decrease) in cash and cash equivalents	(4,930)	3,972	(9,525)	(4)
Cash and cash equivalents at beginning of period	19,706	12,596	24,301	16,572

Cash and cash equivalents at end of period	$ 14,776	$ 16,568	$ 14,776	$ 16,568

See notes to condensed consolidated financial statements.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands, except per share amounts and except where indicated)

Note A Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-K. Accordingly, they do not include all the information and notes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made and such adjustments were of a normal and recurring nature. The results of operations and cash flows for the three-month and six-month periods ended December 3, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ended June 3, 2006.

The Company s fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first six months of fiscal 2006 contains 27 weeks, and the first six months of fiscal 2005 contains 26 weeks. The additional week occurred in the first quarter of fiscal 2006.

The financial information contained in this report should be read in conjunction with the Company s Annual Report on Form 10-K/A (Amendment No. 2) (10-K/A) for the fiscal year ended May 28, 2005. Certain amounts in prior periods financial statements and related notes have been reclassified to conform with the fiscal 2006 presentation. Customer cash discounts were reclassified from selling, general and administrative expenses to net sales. The reclassifications had no impact on net income or stockholders equity for any reportable period presented.

Note B Restatement

On April 4, 2006, the Company concluded that its previously issued condensed consolidated financial statements, including those for its three and six month periods ended December 3, 2005 and November 27, 2004, should not be relied upon as a result of errors discovered by the Company in the accounts of an Italian subsidiary, RES S.r.l. (Ingenium). The unaudited condensed consolidated financial statements for the three and six month periods ended December 3, 2005 and November 27, 2004 have been amended and restated to correct these errors. In addition, the Company has amended and restated the three and six month periods ended December 3, 2005 and November 27, 2004 condensed consolidated financial statements for certain other errors. The following table summarizes the effects of the restatement adjustments as described above on net income:

	Three Months		Six Months	
	December 3, 2005	**November 27, 2004**	**December 3, 2005**	**November 27, 2004**
Net income as previously reported	$ 474	$ 4,045	$ 2,036	$ 4,851
Increased (decreased) income:				

Ingenium adjustments	(183)	(732)	(521)	(576)
Other adjustments	2	(23)	598	(81)
Net income, as restated	$ 293	$ 3,290	$ 2,113	$ 4,194

The following tables summarize the significant effects of the restatement:

	December 3, 2005		May 28, 2005	
Balance Sheet	**As Reported**	**As Restated**	**As Reported**	**As Restated**
Cash	$ 15,972	$ 14,776	$ 24,530	$ 24,301
Receivables	108,584	108,468	106,928	106,152
Inventories	112,012	111,375	102,272	101,555
Prepaid expenses	4,193	4,193	3,293	3,380
Deferred income taxes	7,090	5,357	6,644	4,911
Total current assets	247,851	244,169	243,667	240,299
Property, plant and equipment, net	31,838	31,729	31,821	31,712
Other intangible assets, net	2,268	2,295	1,018	1,045
Non-current deferred income taxes	423		428	
Total assets	299,656	295,469	287,818	283,940
Accounts payable	49,332	50,219	39,305	40,392
Accrued liabilities	24,041	24,679	22,731	23,762
Total current liabilities	96,799	98,324	84,341	86,459
Non-current deferred income taxes		661		656
Total liabilities	192,506	194,692	183,770	186,544
Accumulated deficit	(7,906)	(14,293)	(9,942)	(16,406)
Accumulated other comprehensive income (loss)	1,503	1,517	(643)	(831)
Total stockholders equity	107,150	100,777	104,048	97,396
Total liabilities and stockholders equity	299,656	295,469	287,818	283,940

	For the three months ended				For the six months ended			
	December 3, 2005		November 27, 2004		December 3, 2005		November 27, 2004	
Statements of Income (Loss)	**As Reported**	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restated**
Cost of sales	$ 116,199	$ 116,331	$ 114,320	$ 115,412	$ 235,528	$ 235,944	$ 219,238	$ 220,004
Gross margin	39,638	39,506	36,954	35,862	78,454	78,038	70,483	69,717
Selling, general & administrative expenses	32,234	32,283	32,048	32,126	65,301	65,264	61,264	61,602
Operating income	7,426	7,245	4,923	3,753	13,315	12,936	9,246	8,142
Interest expense	2,320	2,320	2,184	2,184	4,641	4,597	4,441	4,441
Income before income taxes	1,179	998	6,127	4,957	4,948	4,613	7,255	6,151
Income tax provision	705	705	2,082	1,667	2,912	2,500	2,404	1,957
Net income	474	293	4,045	3,290	2,036	2,113	4,851	4,194
Net income per share - basic:								
Common stock	$ 0.03	$ 0.02	$ 0.24	$ 0.19	$ 0.12	$ 0.12	$ 0.30	$ 0.26
Class B common stock	$ 0.02	$ 0.02	$ 0.21	$ 0.17	$ 0.11	$ 0.11	$ 0.27	$ 0.23

Net income per share - diluted:								
Common stock	$ 0.03	$ 0.02	$ 0.23	$ 0.19	$ 0.12	$ 0.12	$ 0.29	$ 0.25
Class B common stock	$ 0.02	$ 0.02	$ 0.21	$ 0.17	$ 0.11	$ 0.11	$ 0.26	$ 0.23

	For the three months ended				For the six months ended			
	December 3, 2005		November 27, 2004		December 3, 2005		November 27, 2004	
Statements of Cash Flows	**As Reported**	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restated**
Net cash provided by (used in) operating activities	$ 2,634	$ 2,047	$ 1,509	$ 719	$ 7,784	$ 6,847	$ (8,092)	$ (8,770)
Net cash used in investing activities	(1,880)	(1,943)	(2,599)	(2,392)	(9,232)	(9,296)	(5,516)	(5,228)
Effect of exchange rate changes on cash and cash equivalents	(678)	(645)	1,181	1,166	(603)	(569)	1,072	1,057

Note C Investment in Marketable Equity Securities

The Company s investments are primarily equity securities, all of which are classified as available-for-sale and are carried at their fair value based on the quoted market prices. Proceeds from the sale of the securities were $335 and $736 during the second quarter and first six months of fiscal 2006, respectively, and $990 and $1,134 during the same periods of fiscal 2005, all of which were subsequently reinvested. Gross realized gains on those sales were $50 and $101 for the second quarter and first six months of fiscal 2006, respectively, and $88 and $110 for the same periods of fiscal 2005. Gross realized losses on those sales were $42 and $43 for the second quarter and first six months of fiscal 2006, respectively, and $31 and $48 for the same periods of fiscal 2005. Net unrealized holding gains of $191 and $123 for the second quarter and first six months of fiscal 2006, respectively, and net unrealized holding losses of $23 and net unrealized holding gains of $96 for the second quarter and first six months of fiscal 2005, respectively, have been included in accumulated comprehensive income (loss) for fiscal 2006 and 2005.

The following table is the disclosure under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, for the investment in marketable equity securities with fair values less than cost basis:

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	Marketable Security Holding Length					
	Less Than 12 Months		More Than 12 Months		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 3, 2005						
Common Stock	$ 267	$ 14	$ 342	$ 40	$ 609	$ 54
May 28, 2005						
Common Stock	$ 2,044	$ 33	$	$	$ 2,044	$ 33

Note D Assets Held for Sale

On August 4, 2005, the Company entered into a contract to sell approximately 1.5 acres of real estate and a building located in Geneva, Illinois for $3,000. The contract is subject to a number of conditions, including inspections, environmental testing, and other customary conditions. Although the sale of the real estate and building is expected to close within one year from the date of the agreement, the Company cannot give any assurance as to the actual timing or successful completion of the transaction.

Note E Goodwill and Other Intangible Assets

The Company performed its annual impairment test during the fourth quarter of fiscal 2005. The same methodology was employed in completing the annual impairment test as in applying transitional accounting provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company did not find any indication that additional impairment existed, and therefore, no additional impairment loss was recorded as a result of completing the annual impairment test.

The table below provides changes in carrying value of goodwill by reportable segment which includes RF, Wireless & Power Division (RFPD), Electron Device Group (EDG), Security Systems Division (SSD), and Display Systems Group (DSG):

	Goodwill				
	Reportable Segments				
	RFPD	EDG	SSD	DSG	Total
Balance at May 28, 2005	$ 245	$ 881	$ 1,577	$ 3,446	$ 6,149
Additions				6,534	6,534
Foreign currency translation	6	(5)	140	(394)	(253)
Balance at December 3, 2005	$ 251	$ 876	$ 1,717	$ 9,586	$ 12,430

The addition to goodwill in the first six months of fiscal 2006 represents the acquisition of A.C.T. Kern GmbH & Co. KG (Kern) located in Germany, effective June 1, 2005. The cash outlay for Kern was $6,583, net of cash acquired. Kern is one of the leading display technology companies in Europe with world wide customers in manufacturing, OEM, medicine, multimedia, IT trading, system houses, and other industries.

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The following table provides changes in carrying value of other intangible assets not subject to amortization:

	Other Intangible Assets Not Subject to Amortization				
	Reportable Segments				
	RFPD	EDG	SSD	DSG	Total
Balance at May 28, 2005	$	$ 9	$ 278	$	$ 287
Foreign currency translation			26		26
Balance at December 3, 2005	$	$ 9	$ 304	$	$ 313

Intangible assets subject to amortization, as well as amortization expense are as follows:

	Intangible Assets Subject to Amortization			
	December 3, 2005		May 28, 2005	
	Gross Amounts (restated)	Accumulated Amortization (restated)	Gross Amounts	Accumulated Amortization
Deferred financing costs	$ 4,266	$ 2,314	$ 2,968	$ 2,241
Patents and trademarks	559	529	554	523
Total	$ 4,825	$ 2,843	$ 3,522	$ 2,764

Deferred financing costs increased during the first six months of fiscal 2006 primarily due to the issuance of the Company s 7 3/4% convertible senior subordinated notes (7 3/4% notes) and the 8% convertible senior subordinated notes (8% notes).

Amortization expense for the three-month and six-month periods ended December 3, 2005 and November 27, 2004 is as follows:

	Amortization Expense for Second Quarter		Amortization Expense for Six Months	
	FY 2006	FY 2005	FY 2006	FY 2005

Deferred financing costs	$ 71	$ 129	$ 116	$ 171
Patents and trademarks		4	1	7
Total	$ 71	$ 133	$ 117	$ 178

The amortization expense associated with the intangible assets subject to amortization is expected to be $317, $391, $391, $390, $302, $242, and $43 in fiscal 2006, 2007, 2008, 2009, 2010, 2011, and 2012, respectively. The weighted average number of years of amortization expense remaining is 7.53.

Note F Restructuring Charges

As a result of the Company s fiscal 2005 restructuring initiative, a restructuring charge, including severance and lease termination costs of $2,152, was recorded in selling, general and administrative expenses (SG&A) in the third quarter of fiscal 2005. During the fourth quarter of fiscal 2005, the employee severance and related costs were adjusted, resulting in a $183 decrease in SG&A due to the difference between estimated severance costs and the actual payouts. Severance costs of $1,108 were paid in fiscal 2005. During the first six months of fiscal 2006, severance and lease termination costs of $639 were paid. During the first six months of fiscal 2006, the employee severance and related costs were adjusted resulting in a $110 decrease in SG&A due to the difference between estimated severance costs and the actual payouts. The remaining balance payable during fiscal 2006 has been included in accrued liabilities. Terminations affected over 60 employees across various business functions, operating units, and geographic regions. As of December 3, 2005, the following table depicts the amounts associated with the activity related to restructuring by reportable segment:

	Restructuring Liability May 28, 2005	For the six months ended December 3, 2005 Reserve Recorded	Payment	Adjustment to Reserve	Restructuring Liability December 3, 2005
Employee severance and related costs:					
RFPD	$ 318	$	$ (262)	$ (19)	$ 37
EDG	183		(71)	(112)	
SSD	25		(22)	(3)	
DSG	230		(183)		47
Corporate	70		(66)	24	28
Total	826		(604)	(110)	112
Lease termination costs:					
SSD	35		(35)		
Total	$ 861	$	$ (639)	$ (110)	$ 112

Note G Warranties

The Company offers warranties for specific products it manufactures. The Company also provides extended warranties for some products it sells that lengthen the period of coverage specified in the manufacturer s original warranty. Terms generally range from one to three years.

The Company estimates the cost to perform under its warranty obligation and recognizes this estimated cost at the time of the related product sale. The Company reports this expense as an element of cost of sales in its Condensed Consolidated Statements of Operations. Each quarter, the Company assesses actual warranty costs incurred, on a product-by-product basis, as compared to its estimated obligation. The estimates with respect to new products are based generally on knowledge of the products, are extrapolated to reflect the extended warranty period, and are refined each quarter as better information with respect to warranty experience becomes known.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. The warranty reserves are determined based on known product failures, historical experience, and other currently available evidence.

Changes in the warranty reserve for the first six months ended December 3, 2005 were as follows:

	Warranty Reserve
Balance at May 28, 2005	$ 1,439
Accruals for products sold	545
Utilization	(216)
Change in estimate	(946)
Balance at December 3, 2005	$ 822

During the second quarter of fiscal 2003, DSG provided a three-year warranty on some of its products. As the extended warranty on the first products sold under the warranty program expired during the second quarter of fiscal 2006, along with additional warranty experience available during the first six months of fiscal 2006, the Company revised its estimate of the warranty reserve to reflect the actual warranty experience to date. As a result, a change in estimate of $946 was recorded during the second quarter of fiscal 2006.

Note H Debt

Long-term debt consists of the following:

	December 3, 2005	May 28, 2005
8 1/4% convertible debentures, due June 2006	$ 17,538	$ 17,538
7 1/4% convertible debentures, due December 2006	4,753	4,753
7 3/4% convertible notes, due December 2011	44,683	44,683
8% convertible notes, due June 2011	25,000	
Floating-rate multi-currency revolving credit agreement, due October 2009 (4.41% at December 3, 2005)	24,989	53,314
Other	1,161	45
Total debt	118,124	120,333
Less: current portion	(23,426)	(22,305)
Long-term debt	$ 94,698	$ 98,028

At December 3, 2005, the Company maintained $94,698 in long-term debt, primarily in the form of two issuances of convertible notes and a multi-currency credit agreement. The Company maintained two issuances of convertible debentures in short-term debt at December 3, 2005 in the amount of $17,538 and $4,753 for the 8 1/4% convertible senior subordinated debentures (8 1/4% debentures) and the 7 1/4% convertible subordinated debentures (7 1/4% debentures), respectively. This short-term classification resulted from the amended and restated credit agreement requiring the 8 1/4% and 7 1/4% debentures to be refinanced prior to February 28, 2006. On August 24, 2005, the Company executed an amendment to the amended and restated credit agreement which extended the refinancing requirement for the 8 1/4% and 7 1/4% debentures to June 10, 2006.

On November 21, 2005, the Company sold $25,000 in aggregate principal amount of 8% convertible senior subordinated notes (8% notes) pursuant to an indenture dated November 21, 2005. The 8% notes bear interest at a rate of 8% per annum. Interest is due on June 15 and December 15 of each year. The 8% notes mature on June 15, 2011. The 8% notes are convertible at the option of the holder, at any time on or prior to maturity, into shares of the Company s common stock at a price equal to $10.31 per share, subject to adjustment in certain circumstances. In addition, the Company may elect to automatically convert the 8% notes into shares of common stock if the trading price of the common stock exceeds 150% of the conversion price of the 8% notes for at least 20 trading days during any 30 trading day period subject to a payment of three years of interest if the Company elects to convert the 8% notes prior to December 20, 2008.

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

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debt and senior to the Company s existing 7 1/4% debentures and 8 1/4% debentures. The 8% notes rank on parity with the Company s existing 7 3/4% notes.

The Company used the net proceeds from the sale of the 8% notes to repay amounts outstanding under its amended and restated credit agreement. The Company redeemed all of the outstanding 8 1/4% debentures on December 23, 2005 in the amount of $17,538 and redeemed all of the outstanding 7 1/4% debentures on December 30, 2005 in the amount of $4,753 by borrowing amounts under the amended and restated credit agreement to effect these redemptions.

In October 2004, the Company renewed its multi-currency revolving credit agreement with the current lending group in the amount of approximately $109,000 (the size of the credit line varies based on fluctuations in foreign currency exchange rates). The agreement expires in October 2009, and the outstanding balance at that time will become due. At December 3, 2005, $24,989 was outstanding under the amended and restated credit agreement. The amended and restated credit agreement is principally secured by the Company s trade receivables and inventory. The amended and restated credit agreement bears interest at applicable LIBOR rates plus a margin, varying with certain financial performance criteria. At December 3, 2005, the applicable margin was 2.25%. Outstanding letters of credit were $2,166 at December 3, 2005, leaving an unused line of $81,536 under the total amended and restated credit agreement; however, this amount was reduced to $24,495 due to maximum permitted leverage ratios. The commitment fee related to the amended and restated credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment. The Company s multi-currency revolving credit agreement consists of the following facilities as of December 3, 2005:

	Capacity	Amount Outstanding	Interest Rate
US Facility	$ 70,000	$ 1,300	6.75%
Canada Facility	14,607	7,358	4.25%
Sweden Facility	7,932	7,932	3.63%
UK Facility	7,793	4,156	6.62%
Euro Facility	5,868	2,582	4.19%
Japan Facility	2,491	1,661	1.85%
Total	$ 108,691	$ 24,989	4.41%

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Note: Due to maximum permitted leverage ratios, the amount of the unused line cannot be calculated on a facility-by-facility basis.

On August 24, 2005, the Company executed an amendment to the amended and restated credit agreement. The amendment changed the maximum permitted leverage ratios and the minimum required fixed charge coverage ratios for each of the first three quarters of fiscal 2006 to provide the Company additional flexibility for these periods. In addition, the amendment also provided that the Company will maintain excess availability on the borrowing base of not less than $23,000 until the 8 1/4% and 7 1/4% debentures were redeemed, at which time the Company will maintain excess availability of the borrowing base of not less than $10,000. The applicable margin pricing was increased by 25 basis points. In addition, the amendment extended the Company s requirement to refinance the remaining $22,291 aggregate principal amount of the Company s 7 1/4% debentures and the 8 1/4% debentures from February 28, 2006 to June 10, 2006.

At September 3, 2005, the Company was not in compliance with its amended and restated credit agreement covenants with respect to the tangible net worth covenant due solely to the additional goodwill recorded as a result of the Kern acquisition. On October 12, 2005, the Company received a waiver from its lending group for the default and executed an amendment to the amended and restated credit agreement.

The amendment changed the minimum tangible net worth requirement to adjust for the goodwill associated with the Kern acquisition. At December 3, 2005, the Company was in compliance with its amended and restated credit agreement covenants.

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Note I Income Taxes

The effective income tax rates for the second quarter and first six months of fiscal year 2006 were 70.6% and 54.2%, respectively, as compared with 33.6% and 31.8% for the second quarter and first six months of fiscal 2005, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from the Company s geographical distribution of taxable income or losses, and, in the three and six months ended December 3, 2005, subject to valuation allowances related to net operating losses. For the six months ended December 3, 2005, the tax benefit primarily related to domestic net operating losses was limited by the requirement for a valuation allowance of $2,204, which increased the effective income tax rate by 47.8%. During the second quarter of fiscal 2006, income tax reserves of approximately $1,000 for certain income tax exposures were reversed because the statute of limitations with respect to these income tax exposures expired.

In May 2005, the Company was informed by one of its foreign subsidiaries that its records may not be adequate to support the taxable revenues and deductions included within tax returns previously filed for the tax years 2003 and 2004. At this time, the Company has not received notification from any tax authority regarding this matter. In December 2005, the Company determined its income tax exposure for the tax year 2003 is less than $100. During the second quarter of fiscal 2006, the Company increased its income tax reserve for this potential exposure, and no additional exposure is anticipated with respect to the tax year 2003. The Company expects to complete its investigation for the tax year 2004 prior to the third quarter ending March 4, 2006. As of January 12, 2006, for the tax year 2004, based on the conclusions reached for the tax year 2003, any material liability is considered to be remote and therefore, no liability with respect to the tax year 2004 has been recorded.

Note J Calculation of Earnings Per Share

The Company has authorized 30,000 shares of common stock, 10,000 shares of Class B common stock, and 5,000 shares of preferred stock. The Class B common stock has ten votes per share. The Class B common stock has transferability restrictions; however, it 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 common stock cash dividends.

The Company has determined that, under Emerging Issues Task Force (EITF) Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share, a two-class method of computing earnings per share is required. According to the EITF Issue No. 03-6, the Company s 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 reflect the application of EITF Issue No. 03-6 and was computed using the two-class method. Prior periods have been restated to reflect this change. 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 (90% of the amount of common stock cash dividends).

Diluted earnings per share is calculated by dividing net income, adjusted for interest savings, net of tax, on assumed conversion of convertible debentures and notes, by the actual shares outstanding and share equivalents that would arise from the exercise of stock options, certain restricted stock awards, and the assumed conversion of convertible debentures and notes when dilutive. The Company s 8 1/4% and 7 1/4% debentures and its 7 3/4% and 8% notes are excluded from the calculation for the second quarter and first six months of fiscal 2006, and the Company s 8 1/4% and 7 1/4% debentures are excluded from the calculation for the second quarter and first six months of fiscal 2005, as assumed conversion and the effect of the interest savings would be anti-dilutive. The per share amounts presented in the Condensed Consolidated

Statements of Operations for the second quarter and first six months of fiscal 2006 and 2005 are based on the following amounts:

	Second Quarter		Six Months	
	FY 2006 (restated)	FY 2005 (restated)	FY 2006 (restated)	FY 2005 (restated)
Numerator for basic and diluted EPS:				
Net income	$ 293	$ 3,290	$ 2,113	$ 4,194
Less dividends:				
Common stock	572	565	1,143	1,130
Class B common stock	112	114	224	228
Undistributed earnings (losses)	$ (391)	$ 2,611	$ 746	$ 2,836
Common stock undistributed earnings (losses)	$ (327)	$ 2,174	$ 624	$ 2,340
Class B common stock undistributed earnings (losses) basic	(64)	437	122	496
Total undistributed earnings (losses) common stock and Class B common stock basic	$ (391)	$ 2,611	$ 746	$ 2,836
Common stock undistributed earnings (losses)	$ (327)	$ 2,179	$ 624	$ 2,347
Class B common stock undistributed earnings (losses) diluted	(64)	432	122	489
Total undistributed earnings (losses) Class B common stock diluted	$ (391)	$ 2,611	$ 746	$ 2,836
Denominator for basic and diluted EPS:				
Denominator for basic EPS:				
Common stock weighted average shares	14,293	14,126	14,284	13,420
Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share	3,110	3,158	3,110	3,158
Effect of dilutive securities:				
Unvested restricted stock awards	4	15	4	17
Dilutive stock options	55	180	77	206
Denominator for diluted EPS adjusted weighted average shares and assumed conversions	17,462	17,479	17,475	16,801
Net income per share *(as restated)*:				
Common stock basic	$ 0.02	$ 0.19	$ 0.12	$ 0.26
Class B common stock basic	$ 0.02	$ 0.17	$ 0.11	$ 0.23
Common stock diluted	$ 0.02	$ 0.19	$ 0.12	$ 0.25
Class B common stock diluted	$ 0.02	$ 0.17	$ 0.11	$ 0.23

As of the second quarter and first six months of fiscal 2006, 1,922 common stock options and 1,900 common stock options, respectively, were anti-dilutive and were not included in the dilutive earnings per common share calculation. As of the second quarter and first six months of fiscal 2005, 1,524 common stock options and 1,499 common stock options, respectively, were anti-dilutive and were not included in the dilutive earnings per common share calculation.

The restated per share amounts for the first quarter of fiscal 2006 and 2005 are based on the following amounts:

	First Quarter	
	FY 2006 (restated)	FY 2005 (restated)
Numerator for basic and diluted EPS:		
Net income	$ 1,820	$ 904
Less dividends:		
Common stock	571	565
Class B common stock	112	114
Undistributed earnings	$ 1,137	$ 225
Common stock undistributed earnings	$ 950	$ 184
Class B common stock undistributed earnings basic	187	41
Total undistributed earnings common stock and Class B common stock basic	$ 1,137	$ 225
Common stock undistributed earnings	$ 951	$ 184
Class B common stock undistributed earnings diluted	186	41
Total undistributed earnings Class B common stock diluted	$ 1,137	$ 225
Denominator for basic and diluted EPS:		
Denominator for basic EPS:		
Common stock weighted average shares	14,264	12,703
Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share	3,120	3,169
Effect of dilutive securities:		
Unvested restricted stock awards	4	21
Dilutive stock options	100	231
Denominator for diluted EPS adjusted weighted average shares and assumed conversions	17,488	16,124
Net income per share *(as restated)*:		
Common stock basic	$ 0.11	$ 0.06
Class B common stock basic	$ 0.10	$ 0.05
Common stock diluted	$ 0.10	$ 0.06
Class B common stock diluted	$ 0.10	$ 0.05

As of the first quarter of fiscal 2006, 1,619 common stock options were anti-dilutive and were not included in the dilutive earnings per common share calculation. As of the first quarter of fiscal 2005, 1,268 common stock options were anti-dilutive and were not included in the dilutive earnings per common share calculation.

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Note K Stock-Based Compensation

The Company accounts for its stock option plans and stock purchase plan in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. However, the exercise price of all grants under the Company s option plans has been equal to the fair market value on the date of grant. SFAS No. 123, *Accounting for Stock-Based Compensation*, requires estimation of the fair value of options granted to employees. Had the Company s option plans and stock purchase plan been treated as compensatory under the provisions of SFAS No. 123, the Company s net income and net income per share for the second quarter and first six months of fiscal 2006 would have been affected as follows:

	Second Quarter		Six Months	
	FY 2006 (restated)	FY 2005 (restated)	FY 2006 (restated)	FY 2005 (restated)
Net income, as reported	$ 293	$ 3,290	$ 2,113	$ 4,194
Add: Stock-based compensation expense included in reported net income, net of income tax	2	51	3	102
Deduct: Stock-based compensation expense determined under fair value-based method for all awards, net of income tax	(184)	(216)	(367)	(431)
Pro-forma net income	$ 111	$ 3,125	$ 1,749	$ 3,865
Net income per share, as reported *(as restated):*				
Common stock basic	$ 0.02	$ 0.19	$ 0.12	$ 0.26
Class B common stock basic	$ 0.02	$ 0.17	$ 0.11	$ 0.23
Common stock diluted	$ 0.02	$ 0.19	$ 0.12	$ 0.25
Class B common stock diluted	$ 0.02	$ 0.17	$ 0.11	$ 0.23
Net income per share, pro forma *(as restated):*				
Common stock basic	$ 0.01	$ 0.18	$ 0.10	$ 0.24
Class B common stock basic	$ 0.01	$ 0.17	$ 0.09	$ 0.21
Common stock diluted	$ 0.01	$ 0.18	$ 0.10	$ 0.23
Class B common stock diluted	$ 0.01	$ 0.16	$ 0.09	$ 0.21

Had the Company s option plans and stock purchase plan been treated as compensatory under the provisions of SFAS No. 123, the Company s net income and net income per share (restated using the two-class method of calculating earnings per share, see Note J) for the first quarter of fiscal 2006 would have been affected as follows:

	First Quarter	
	FY 2006 (restated)	FY 2005 (restated)
Net income, as reported	$ 1,820	$ 904
Add: Stock-based compensation expense included in reported net income, net of income tax	1	51
Deduct: Stock-based compensation expense determined under fair value-based method for all awards, net of income tax	(183)	(216)
Pro-forma net income	$ 1,638	$ 739
Net income per share, as reported *(as restated):*		
Common stock basic	$ 0.11	$ 0.06
Class B common stock basic	$ 0.10	$ 0.05
Common stock diluted	$ 0.10	$ 0.06
Class B common stock diluted	$ 0.10	$ 0.05
Net income per share, pro forma *(as restated):*		
Common stock basic	$ 0.10	$ 0.05
Class B common stock basic	$ 0.09	$ 0.04
Common stock diluted	$ 0.09	$ 0.05
Class B common stock diluted	$ 0.09	$ 0.04

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Note L Segment Information

During the second quarter of fiscal 2006, the Company implemented a reorganization plan encompassing the Company s RF & Wireless Communications Group (RFWC) and Industrial Power Group (IPG) business units. Effective for the second quarter of fiscal 2006, IPG has been designated as Electron Device Group (EDG) and RFWC has been designated as RF, Wireless & Power Division (RFPD). The reorganization was implemented to increase efficiencies by integrating IPG s power conversion sales and product management into RFWC, improving the geographic sales coverage and driving sales growth by leveraging RFWC s larger sales resources. In addition, the Company believes that EDG will benefit from an increased focus on the high-margin tube business with a simplified global sales and product management structure to work more effectively with customers and vendors. The data presented has been reclassified to reflect the reorganization.

The following disclosures are made in accordance with the SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company s strategic business units (SBUs) in fiscal 2006 are: RF, Wireless & Power Division (RFPD), Electron Device Group (EDG), Security Systems Division (SSD), and Display Systems Group (DSG).

RFPD serves the voice and data telecommunications market and the radio and television broadcast industry predominately for infrastructure applications, as well as the industrial power conversion market.

EDG serves a broad range of customers including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

SSD provides security systems and related design services which includes such products as closed circuit television, fire, burglary, access control, sound, and communication products and accessories.

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DSG provides system integration and custom display solutions for the public information, financial, point-of-sale, and medical imaging markets.

Each SBU is directed by a Vice President and General Manager who reports to the President and Chief Operating Officer. The President evaluates performance and allocates resources, in part, based on the direct operating contribution of each SBU. Direct operating contribution is defined as gross margin less product management and direct selling expenses.

Accounts receivable, inventory, and goodwill are identified by SBU. Cash, net property, and other assets are not identifiable by SBU. Operating results for each SBU are summarized in the following table:

	Sales	Gross Margin (restated)	Direct Operating Contribution (restated)	Assets (restated)
Second Quarter Fiscal 2006				
RFPD	$ 79,569	$ 18,645	$ 11,653	$ 102,959
EDG	24,607	7,712	5,278	49,989
SSD	28,268	7,155	2,412	38,095
DSG	21,894	6,118	2,631	33,523
Total	$ 154,338	$ 39,630	$ 21,974	$ 224,566
Second Quarter Fiscal 2005				
RFPD	$ 75,197	$ 16,760	$ 9,139	$ 107,237
EDG	23,465	7,336	4,288	42,244
SSD	27,360	7,304	2,832	38,317
DSG	23,562	5,298	2,783	27,877
Total	$ 149,584	$ 36,698	$ 19,042	$ 215,675

	Sales	Gross Margin (restated)	Direct Operating Contribution (restated)	Assets (restated)
Six Months Fiscal 2006				
RFPD	$ 160,726	$ 36,841	$ 22,709	$ 102,959
EDG	48,445	15,444	9,990	49,989
SSD	55,172	14,169	4,660	38,095
DSG	46,344	12,133	5,425	33,523
Total	$ 310,687	$ 78,587	$ 42,784	$ 224,566

Six Months Fiscal 2005				
RFPD	$ 147,771	$ 33,563	$ 18,978	$ 107,237
EDG	44,965	14,636	8,986	42,244
SSD	53,121	13,802	5,409	38,317
DSG	40,542	9,431	4,590	27,877
Total	$ 286,399	$ 71,432	$ 37,963	$ 215,675

A reconciliation of net sales, gross margin, direct operating contribution, and assets to the relevant consolidated amounts is as follows. Other assets not identified include miscellaneous receivables, manufacturing inventories, and other assets.

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	Second Quarter		Six Months	
	FY 2006	FY 2005	FY 2006	FY 2005
Segment net sales	$ 154,338	$ 149,584	$ 310,687	$ 286,399
Corporate	1,499	1,690	3,295	3,322
Net sales	$ 155,837	$ 151,274	$ 313,982	$ 289,721
Segment gross margin (restated)	$ 39,630	$ 36,698	$ 78,587	$ 71,432
Manufacturing variances and other costs	(124)	(836)	(549)	(1,715)
Gross margin (restated)	$ 39,506	$ 35,862	$ 78,038	$ 69,717
Segment contribution (restated)	$ 21,974	$ 19,042	$ 42,784	$ 37,963
Manufacturing variances and other costs	(124)	(836)	(549)	(1,715)
Regional selling expenses	(4,646)	(4,880)	(10,034)	(9,419)
Administrative expenses (restated)	(9,981)	(9,590)	(19,427)	(18,714)
Gain on disposal of assets	22	17	162	27
Operating income (restated)	$ 7,245	$ 3,753	$ 12,936	$ 8,142

	December 3, 2005 (restated)	May 28, 2005
Segment assets	$ 224,566	$ 202,223
Cash and cash equivalents	14,776	24,301
Other current assets	17,570	20,211
Net property	31,729	31,712
Other assets	6,828	5,493
Total assets	$ 295,469	$ 283,940

Geographic net sales information is primarily grouped by customer destination into five areas: North America, Europe, Asia/Pacific, Latin America, and Corporate. Europe includes sales to the Middle East and Africa. Net sales to Mexico are included as part of Latin America. Corporate consists of freight and non-area specific sales.

Net sales and gross margin by geographic region are presented in the table below:

Second Quarter		Six Months	
FY 2006	FY 2005	FY 2006	FY 2005

Net Sales				
North America	$ 79,219	$ 79,765	$ 161,340	$ 154,105
Europe	34,925	33,664	67,731	63,166
Asia/Pacific	34,793	31,776	71,993	60,565
Latin America	5,980	4,983	11,980	9,848
Corporate	920	1,086	938	2,037
Total	$ 155,837	$ 151,274	$ 313,982	$ 289,721
Gross Margin				
North America	$ 21,052	$ 20,767	$ 42,541	$ 39,736
Europe (restated)	9,041	8,103	18,367	16,856
Asia/Pacific	8,221	7,740	17,359	14,456
Latin America	1,627	1,432	3,149	2,726
Corporate	(435)	(2,180)	(3,378)	(4,057)
Total (restated)	$ 39,506	$ 35,862	$ 78,038	$ 69,717

The Company sells its products to companies in diversified industries and performs periodic credit evaluations of its customers financial condition. Terms are generally on open account, payable net 30 days

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in North America, and vary throughout Europe, Asia/Pacific, and Latin America. Estimates of credit losses are recorded in the financial statements based on periodic reviews of outstanding accounts, and actual losses have been consistently within management s estimates.

Note M Recently Issued Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) revised SFAS No. 123, *Accounting for Stock-Based Compensation*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) is effective at the beginning of the next fiscal year that begins after June 15, 2005, or the Company s fiscal year 2007. The Company is evaluating the impact of the adoption of SFAS No.123(R) on the financial statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands, except per share amounts and except where indicated)

As discussed in Note B of the Notes to the Condensed Consolidated Financial Statements, the Company s condensed consolidated financial statements have been amended and restated. The accompanying Management s Discussion and Analysis gives effect to the restatement.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q/A are forward-looking statements relating to future events, which involve certain risks and uncertainties. Further, there can be no assurance that the trends reflected in historical information will continue in the future.

Investors should consider carefully the following risk factors, in addition to the other information included and incorporated by reference in the Quarterly Report on Form 10-Q/A. All statements other than statements of historical facts included in this report are statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. The words expect, estimate, anticipate, predict, believe, and similar expressions and variations thereof are intended to identify forward-looki statements. Such statements appear in a number of places in this report and include statements regarding the intent, belief, or current expectations of the Company, its directors, or its officers with respect to, among other things: (i) trends affecting the Company s financial condition or results of operations; (ii) the Company s financing plans; (iii) the Company s business and growth strategies, including potential acquisitions; and (iv) other plans and objectives for future operations. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those predicted in the forward-looking statements or which may be anticipated from historical results or trends.

In addition to the information contained in the Company s other filings with the Securities Exchange Commission, factors that could affect future performance include, among others, the following:

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

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

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

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

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

The Company has significant debt, which could limit its financial resources and ability to compete and may make it more vulnerable to adverse economic events.

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

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

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

The Company was not in compliance with certain financial covenants of its amended and restated credit agreement for the quarters ended May 28, 2005 and September 3, 2005, and may not be able to comply with these financial covenants in the future.

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

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

The Company may not be able to continue to make the acquisitions necessary for it to realize its growth strategy or integrate acquisitions successfully.

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

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

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

The Company is exposed to foreign currency risk.

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

The Company may have underpaid taxes in a foreign country where it has operations.

The Company is exposed to highly variable income tax expense due to its unpredictable geographic distribution of taxable income or losses and its valuation allowances related to net operating losses.

For more discussion of such risks, see Risk Factors in the Company s Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on August 31, 2006.

These risks are not exhaustive. Other sections of this report may include additional factors, which could adversely affect the Company s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors on the Company s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictions of actual results.

Investors should also be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company s policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that the Company agrees 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 the responsibility of the Company.

Overview

Description of Business

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

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

The Company s marketing, sales, product management, and purchasing functions are organized as four strategic business units (SBUs): RF, Wireless & Power Division (RFPD), Electron Device Group (EDG),

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Security Systems Division (SSD), and Display Systems Group (DSG), with operations in the major economic regions of the world: North America, Europe, Asia/Pacific, and Latin America.

During the second quarter of fiscal 2006, the Company implemented a reorganization plan encompassing the Company s RF & Wireless Communications Group (RFWC) and Industrial Power Group (IPG) business units. Effective for the second quarter of fiscal 2006, IPG has been designated as Electron Device Group (EDG) and RFWC has been designated as RF, Wireless & Power Division (RFPD). The reorganization was implemented to increase efficiencies by integrating IPG s power conversion sales and product management into RFWC, improving the geographic sales coverage and driving sales growth by leveraging RFWC s larger sales resources. In addition, the Company believes that EDG will benefit from an increased focus on the high-margin tube business with a simplified global sales and product management structure to work more effectively with customers and vendors. The data presented has been reclassified to reflect the reorganization.

Results of Operations

Net Sales and Gross Margin Analysis

During the second quarter of fiscal 2006, consolidated net sales increased 3.0% to $155,837 due to higher sales in wireless, security, and electron device products over the prior year. During the first six months of fiscal 2006, consolidated net sales increased 8.4% to $313,982, from $289,721 in the same period in the prior year, as all four SBUs increased net sales over the prior year s first six months with strong demand for custom displays and wireless products. In addition, effective June 1, 2005, the Company acquired A.C.T. Kern GmbH & Co. KG (Kern), a leading display technology company in Europe. Net sales for Kern, included in DSG and the Europe region, in the second quarter and first six months of fiscal 2006 were $3,540 and $6,929, respectively. The first six months of fiscal 2006 contained 27 weeks as compared to 26 weeks for the first six months of fiscal 2005. The additional week occurred in the first quarter of fiscal 2006. Net sales by SBU are presented as follows (in thousands):

Net Sales	FY 2006	FY 2005	% Change
Second Quarter			
RFPD	$ 79,569	$ 75,197	5.8%
EDG	24,607	23,465	4.9%
SSD	28,268	27,360	3.3%
DSG	21,894	23,562	(7.1%)
Corporate	1,499	1,690	
Total	$ 155,837	$ 151,274	3.0%

Net Sales	FY 2006	FY 2005	% Change
Six Months			
RFPD	$ 160,726	$ 147,771	8.8%
EDG	48,445	44,965	7.7%
SSD	55,172	53,121	3.9%
DSG	46,344	40,542	14.3%
Corporate	3,295	3,322	

Total	$ 313,982	$ 289,721	8.4%

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Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales and the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second quarter of fiscal 2006. Corporate consists of freight, other non-specific net sales, and customer cash discounts.

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Consolidated gross margins increased 10.2% to $39,506 and 11.9% to $78,038 in the second quarter and first six months of fiscal 2006, respectively, as compared with $35,862 and $69,717 in the same periods last fiscal year due mainly to an increase in sales volume. Consolidated gross margin as a percentage of net sales increased to 25.4% and 24.9% in the second quarter and first six months of fiscal 2006, respectively, versus 23.7% and 24.1% in the second quarter and first six months of fiscal year 2005, respectively. As a percentage of sales, gross margin improved in fiscal 2006 due primarily to favorable excess and obsolete inventory and warranty experience. Gross margin for each SBU and gross margin as a percentage of net sales are presented in the following table. Gross margin reflects the distribution and manufacturing product margin less manufacturing variances, customer returns, scrap and cycle count adjustments, engineering costs, inventory overstock charges, and other provisions. Gross margin on freight, general inventory obsolescence provisions, and miscellaneous costs are included under the caption Corporate.

Gross Margin				
	FY 2006	% of Net Sales	FY 2005	% of Net Sales
Second Quarter				
RFPD (restated)	$ 18,645	23.4%	$ 16,760	22.3%
EDG	7,712	31.3%	7,336	31.3%
SSD	7,155	25.3%	7,304	26.7%
DSG	6,118	27.9%	5,298	22.5%
Corporate	(124)		(836)	
Total (restated)	$ 39,506	25.4%	$ 35,862	23.7%

	FY 2006	% of Net Sales	FY 2005	% of Net Sales
Six Months				
RFPD (restated)	$ 36,841	22.9%	$ 33,563	22.7%
EDG	15,444	31.9%	14,636	32.5%
SSD	14,169	25.7%	13,802	26.0%
DSG	12,133	26.2%	9,431	23.3%
Corporate	(549)		(1,715)	
Total (restated)	$ 78,038	24.9%	$ 69,717	24.1%

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Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales and the reorganization of RFPD (formerly RFWC) and EDG (formerly IPG) in the second quarter of fiscal 2006. Corporate consists of freight, other non-specific gross margins, and customer cash discounts.

Net sales and gross margin trends are analyzed for each strategic business unit in the discussion below.

RF, Wireless & Power Division

RFPD net sales increased 5.8% and 8.8% in the second quarter and first six months of fiscal 2006, respectively, to $79,569 and $160,726 as compared with $75,197 and $147,771 in the same periods last fiscal year. The net sales growth for the second quarter of fiscal 2006 was due mainly to an increase in sales of the network access and passive/interconnect product lines with growth of 24.1% and 6.9% to $30,858 and $14,051, respectively, versus $24,864 and $13,150, in the same period last fiscal year. The increase in the network access product lines was driven by semiconductor product sales in all geographic areas, with the largest growth coming from Asia/Pacific. North America also experienced strong network access product sales growth, where cellular infrastructure and military/defense are the primary markets. Sales of the passive product lines increased due to the addition of two new global, exclusive franchise suppliers. The network access and passive/interconnect product sales increase was partially offset by lower net sales of infrastructure products. Infrastructure product lines sales were lower in the second quarter of fiscal 2006 primarily due to order schedule changes required by specific original equipment manufacturing (OEM) infrastructure customers in Asia/Pacific. The net sales growth for the first six months of fiscal 2006 was mainly due to an increase in sales of the network access and the infrastructure product lines with growth of

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24.3% and 6.4% to $61,488 and $39,357, respectively, from $49,482 and $37,000 in the same period of last fiscal year. Similar to the network access sales for the second quarter, the first six months of fiscal 2006 sales growth was generated in Asia/Pacific. Infrastructure product sales experienced a strong first quarter in fiscal 2006, a 22.2% increase compared to the first quarter of the previous fiscal year. This first quarter growth was primarily from OEM customers in Asia/Pacific. The first six month net sales growth for network access and infrastructure was partially offset by lower net sales of the passive/interconnect product lines. The interconnect product line sales of passive/interconnect were down 4.4% compared to the first six months of fiscal 2005. This was primarily due to fiscal 2005 sales of interconnect products to emergency cellular infrastucture North American customers not repeating in fiscal 2006 as the technology rollout is nearing completion. The net sales growth was the main contributor to the gross margin increase of 11.2% and 9.8% to $18,645 and $36,841 for the second quarter and first six months of fiscal 2006, respectively; however, RFPD gross margin percentage decreased slightly versus the same periods last year. The increase in Asia/Pacific sales for RFPD reduced the overall RFPD gross margin percentage due to lower gross margins in Asia/Pacific than other geographic regions. The decrease in gross margin percentage resulting from higher Asia/Pacific sales was offset by favorable excess and obsolete inventory experience during the second quarter of fiscal 2006.

Electron Device Group

EDG net sales increased 4.9% and 7.7% in the second quarter and first six months of fiscal 2006, respectively, to $24,607 and $48,445, as compared with $23,465 and $44,965 in the second quarter and first six months of fiscal 2005, respectively, in part due to refocusing the EDG sales team after the realignment. Tube sales increased 1.5% and 5.6% in the second quarter and first six months of fiscal 2006, respectively, to $18,092 and $35,639 versus $17,832 and $33,737 in the same periods last fiscal year, as several new lines were added. Semiconductor fabrication equipment sales grew 29.9% and 21.3% to $4,058 and $7,955, as compared with $3,123 and $6,556 in the same periods last fiscal year as new replacement parts were introduced into the Asia/Pacific market, partially offset by lower net sales of power components. Gross margin for EDG increased 5.1% and 5.5% to $7,712 and $15,444 due to higher sales and an improved product mix in the second quarter and first six months of fiscal 2006, respectively, while gross margin percentage increased slightly from the second quarter and first six months of fiscal 2005.

Security Systems Division

Net sales for SSD increased 3.3% and 3.9% in the second quarter and first six months of fiscal 2006, respectively, to $28,268 and $55,172, as compared with $27,360 and $53,121 in the second quarter and first six months of fiscal 2005, respectively. Net sales of private label products increased 9.4% and 15.1% to $9,096 and $17,580 in the second quarter and first six months of fiscal 2006, respectively, as compared with $8,314 and $15,270 in the same periods last fiscal year. The increase was due in part to specific marketing programs designed to support the private label products as well as additional marketing support in the U.S. from the SSD Canadian operations. Gross margin for SSD decreased 2.0% during the second quarter of fiscal 2006 to $7,155 mainly due to an adjustment to the reserve for excess and obsolete inventory, however, for the first six months of fiscal 2006, gross margin increased by 2.7% to $14,169. Gross margin as a percent of net sales decreased to 25.3% and 25.7% for the second quarter and first six months of fiscal 2006, respectively, as compared with 26.7% and 26.0% during the same time periods of last fiscal year due to an increase to the reserve for excess and obsolete inventory during the second quarter of fiscal 2006.

Display Systems Group

DSG net sales during the second quarter of fiscal 2006 decreased 7.1% to $21,894, as compared with $23,562 in the second quarter of fiscal 2005. However, during the first six months of fiscal 2006, net sales for DSG grew 14.3% to $46,344, as compared with $40,542 during the first six months of fiscal 2005. The decrease in net sales for the second quarter of fiscal 2006 compared to the second quarter in the prior year was due in part to a 40% reduction in second quarter of fiscal 2006 shipments to the New York Stock Exchange compared to second quarter of fiscal 2005. DSG has a project-based business. In fiscal 2005, the New York Stock Exchange initiated a large project with DSG. The decline in sales to the New York Stock Exchange is a result of the completion of this project. The sales decrease for the second quarter of fiscal 2006 was

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also due to the delay in closing project business which is expected to be shipped over the balance of the year, partially offset by an increase in the custom displays product line due to the Kern acquisition. Net sales for Kern in the second quarter and first six months of fiscal 2006 were $3,540 and $6,929, respectively. Sales in the custom display product lines were also negatively affected by the relocation of the U.S. DSG integration facility in the second quarter of fiscal 2006. The sales growth for the six-month period was mainly due to the Kern acquisition and an increase in sales of the custom display product line which increased 13.7% to $11,984 in fiscal 2006 from $10,538 in fiscal 2005. DSG gross margin increased 15.5% and 28.7% to $6,118 and $12,133 during the second quarter and first six months of fiscal 2006, respectively, from $5,298 and $9,431 for the same time periods last year. The gross margin percentage increased to 27.9% and 26.2% from 22.5% and 23.3% during the second quarter and first six months of fiscal 2006 and 2005, respectively. The gross margin improvement was due mainly to lower warranty expense as a result of a change in estimate during the second quarter of fiscal 2006 in the amount of $946, for the second quarter and first six months of fiscal 2006, respectively, and also due to improved product mix mainly in the specialty display and medical monitors product lines.

Sales by Geographic Area

On a geographic basis, the Company categorizes its sales by destination: North America, Europe, Asia/Pacific, Latin America, and Corporate. Net sales and gross margin, as a percent of net sales, by geographic area are as follows (in thousands):

Net Sales

Second Quarter	FY 2006	FY 2005	% Change
North America	$ 79,219	$ 79,765	(0.7%)
Europe	34,925	33,664	3.7%
Asia/Pacific	34,793	31,776	9.5%
Latin America	5,980	4,983	20.0%
Corporate	920	1,086	
Total	$ 155,837	$ 151,274	3.0%

Six Months	FY 2006	FY 2005	% Change
North America	$ 161,340	$ 154,105	4.7%
Europe	67,731	63,166	7.2%
Asia/Pacific	71,993	60,565	18.9%
Latin America	11,980	9,848	21.6%
Corporate	938	2,037	
Total	$ 313,982	$ 289,721	8.4%

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Gross Margin

	FY 2006	% of Net Sales	FY 2005	% of Net Sales
Second Quarter				
North America	$ 21,052	26.6%	$ 20,767	26.0%
Europe (restated)	9,041	25.9%	8,103	24.1%
Asia/Pacific	8,221	23.6%	7,740	24.4%
Latin America	1,627	27.2%	1,432	28.7%
Corporate	(435)		(2,180)	
Total (restated)	$ 39,506	25.4%	$ 35,862	23.7%

	FY 2006	% of Net Sales	FY 2005	% of Net Sales
Six Months				
North America	$ 42,541	26.4%	$ 39,736	25.8%
Europe (restated)	18,367	27.1%	16,856	26.7%
Asia/Pacific	17,359	24.1%	14,456	23.9%
Latin America	3,149	26.3%	2,726	27.7%
Corporate	(3,378)		(4,057)	
Total (restated)	$ 78,038	24.9%	$ 69,717	24.1%

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Note: The fiscal 2005 data has been reclassified to conform with the fiscal 2006 presentation. The modification includes reclassifying customer cash discounts from selling, general and administrative expenses to net sales. Europe includes sales and gross margins to Middle East and Africa. Latin America includes sales and gross margins to Mexico. Corporate consists of freight and other non-specific sales and gross margins.

Net sales in North America decreased 0.7% to $79,219 in the second quarter of fiscal 2006, as compared with $79,765 in the second quarter of fiscal 2005. However, net sales in North America for the first six months of fiscal 2006 increased by 4.7% to $161,340 from $154,105 in the first six months of fiscal 2005. The sales decline in the second quarter of fiscal 2006 was due mainly to lower demand for display systems in the U.S. and Canada, partially offset by increases in wireless products in the U.S. The sales increase in the first six months of fiscal 2006 was mainly due to increases in demand for security systems in Canada and wireless products in the U.S. In addition, net sales in Canada experienced an overall gain of 9.9% to $41,340 in the first six months of fiscal 2006 versus $37,617 in the prior fiscal year. An increase in net sales of higher margin products resulted in gross margin improvement in North America to 26.6% and 26.4% for the second quarter and first six months of fiscal 2006, respectively, as compared with 26.0% and 25.8% in fiscal 2005.

Net sales in Europe grew 3.7% and 7.2% in the second quarter and first six months of fiscal 2006, respectively, to $34,925 and $67,731 from $33,664 and $63,166 in the same periods a year ago due to the Kern acquisition. Gross margin in Europe increased to 25.9% and 27.1% from 24.1% and 26.7% during the second quarter and first six months of fiscal 2006 and 2005, respectively, primarily due to shifts in product mix.

Net sales in Asia/Pacific increased 9.5% and 18.9% to $34,793 and $71,993 in the second quarter and first six months of fiscal 2006, respectively, versus $31,776 and $60,565 in the same periods last fiscal year, led by continued strong demand for wireless products in the infrastructure, semiconductor fabrication and broadcasting markets. Net sales in Korea increased 29.9% and 41.7% to $8,964 and $20,939 in the second quarter and first six months of fiscal 2006, respectively, due mainly to higher sales of wireless products related to the third generation (3G) infrastructure rollout in Korea. Gross margins increased in all strategic business units in Asia/Pacific for the second quarter and first six months of fiscal 2006, as compared with last fiscal year due mainly to shifts in product mix focused on design registration programs and the reduction of lower margin programs.

Net sales in Latin America improved 20.0% and 21.6% to $5,980 and $11,980 in the second quarter and first six months of fiscal 2006, respectively, as compared with $4,983 and $9,848 in the second quarter and first six months of fiscal 2005, respectively. The net sales growth was mainly driven by an increase in

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sales of security products/systems integration, refocusing the EDG sales team after the realignment, and strong bookings of RFPD products which compensated for the decline in the defocused transmitter sales from the same fiscal period last year. Gross margin in Latin America declined to 27.2% and 26.3% in the second quarter and first six months of fiscal 2006, respectively, versus 28.7% and 27.7% in the year ago period primarily due to shifts in product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were relatively flat in the second quarter of fiscal 2006 as compared with the same period last year. SG&A increased 5.9% to $65,264 in the first six months of fiscal 2006 as compared with $61,602 in the same period last fiscal year. The increase in expenses for the first six months of fiscal 2006 as compared with the first six months of fiscal 2005 was primarily due to the acquisition of Kern. For the second quarter and first six months of fiscal 2006, total SG&A decreased to 20.7% and 20.8% of net sales, respectively, compared with 21.2% and 21.3% in last fiscal year s second quarter and first six months, respectively.

Other (Income) Expense

In the second quarter and first six months of fiscal 2006, other (income) expense decreased to an expense of $6,247 and $8,323, respectively, from income of $1,204 and expense of $1,991 during the second quarter and first six months of fiscal 2005, respectively. Other (income) expense included a foreign exchange loss of $3,819 and $3,682 during the second quarter and first six months of fiscal 2006, respectively, as compared with a foreign exchange gain of $3,299 and $2,398 during the same periods last fiscal year. The foreign exchange variance was due to the strengthening of the U.S. dollar, primarily related to receivables due from foreign subsidiaries to the U.S. parent company and denominated in foreign currencies. Interest expense increased to $2,320 and $4,597 for the second quarter and first six months of fiscal 2006, respectively, as compared with $2,184 and $4,441 during the same periods of last fiscal year due to higher interest rates related to the Company s amended and restated credit agreement.

Income Tax Provision

The effective income tax rates for the second quarter and first six months of fiscal year 2006 were 70.6% and 54.2%, respectively as compared with 33.6% and 31.8% for the second quarter and first six months of fiscal 2005, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from the Company s geographical distribution of taxable income or losses, and, in the three and six months ended December 3, 2005, subject to valuation allowances related to net operating losses. For the six months ended December 3, 2005, the tax benefit primarily related to domestic net operating losses was limited by the requirement for a valuation allowance of $2,204, which increased the effective income tax rate by 47.8%. During the second quarter of fiscal 2006, income tax reserves of approximately $1,000 for certain income tax exposures were reversed because the statute of limitations with respect to these income tax exposures expired.

In May 2005, the Company was informed by one of its foreign subsidiaries that its records may not be adequate to support the taxable revenues and deductions included within tax returns previously filed for the tax years 2003 and 2004. At this time, the Company has not received notification from any tax authority regarding this matter. In December 2005, the Company determined its income tax exposure for the tax year 2003 is less than $100. During the second quarter of fiscal 2006, the Company increased its income tax reserve for this potential exposure, and no additional exposure is anticipated with respect to the tax year 2003. The Company expects to complete its investigation for the tax year 2004 prior to the third quarter ending March 4, 2006. As of January 12, 2006, for the tax year 2004, based on the conclusions reached for the tax year 2003, any material liability is considered to be remote and therefore, no liability with respect to the tax year 2004 has been recorded.

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Net Income and Per Share Data

Net income for the second quarter of fiscal 2006 was $293 or $0.02 per diluted common share or $0.02 per Class B diluted common share as compared with $3,290 for the second quarter of fiscal 2005, or $0.19 per diluted common share or $0.17 per Class B diluted common share. Net income for the first six months of fiscal 2006 was $2,113 or $0.12 per diluted common share or $0.11 per Class B diluted common share as compared with $4,194 for the first six months of fiscal 2005, or $0.25 per diluted common share or $0.23 per Class B diluted common share.

Liquidity and Capital Resources

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

Cash and cash equivalents were $14,776 at December 3, 2005, a decrease of $9,525 from fiscal 2005 year end. The decrease in cash is primarily due to the collection of receivables due from foreign subsidiaries to the U.S. parent company. The cash received by the U.S. parent company was used to reduce the amount outstanding under the Company s revolving credit agreement.

Cash provided by operating activities for the first six months of fiscal 2006 was $6,847 primarily due to higher accounts payable, partially offset by the increase in inventories. The increase in inventories, due to inventory stocking programs to support anticipated sales growth, was more than offset by the increase in accounts payable due to the timing of inventory purchases during the second quarter of fiscal 2006. Cash used in operating activities for the first six months of fiscal 2005 was $8,770 mainly due to an increase in inventories and accounts receivable. Initial stocking packages for exclusive supplier programs caused inventory to increase. Accounts receivable increased as a result of the 18.2% increase in sales during the second quarter of fiscal 2005 versus the second quarter of fiscal 2004.

Net cash used in investing activities of $9,296 for the first six months of fiscal 2006 was a result of the acquisition, effective June 1, 2005, of Kern located in Donaueschingen in southern Germany. The cash outlay for Kern was $6,583, net of cash acquired. In addition, effective October 1, 2005, the Company acquired Image Systems, a division of CSI in Hector, Minnesota. The initial cash outlay for Image Systems was $250. Image Systems is a specialty supplier of displays, display controllers, and calibration software for the healthcare market. The Company spent $2,737 on capital projects during the first six months of fiscal 2006 primarily related to facility and information technology projects. The Company spent $4,695 on capital projects during the first six months of fiscal 2005 related to PeopleSoft development costs and ongoing investments in information technology infrastructure.

Net cash used in financing activities of $6,507 was primarily due to payments of debt during the first six months of fiscal 2006 and costs related to the issuance of the Company s 8% convertible senior subordinated notes (8% notes) on November 21, 2005. During the first half of fiscal 2005, net cash provided in financing activities was $12,937. During the first quarter of fiscal 2005, the Company had an equity offering for three million shares of stock that contributed $27,915 in proceeds that was used to reduce long-term debt by $13,293 and fund working capital requirements.

On November 21, 2005, the Company sold $25,000 in aggregate principal amount of 8% notes pursuant to an indenture dated November 21, 2005. The 8% notes bear interest at a rate of 8% per annum.

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Interest is due on June 15 and December 15 of each year. The 8% notes mature on June 15, 2011. The 8% notes are convertible at the option of the holder, at any time on or prior to maturity, into shares of the Company s common stock at a price equal to $10.31 per share, subject to adjustment in certain circumstances. In addition, the Company may elect to automatically convert the 8% notes into shares of common stock if the trading price of the common stock exceeds 150% of the conversion price of the 8% notes for at least 20 trading days during any 30 trading day period subject to a payment of three years of interest if the Company elects to convert the 8% notes prior to December 20, 2008.

The indenture provides that on or after December 20, 2008, the Company has the option of redeeming the 8% notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the 8% notes to be redeemed, plus accrued and unpaid interest, if any, but excluding, the redemption date. Holders may require the Company to repurchase all or a portion of their 8% notes for cash upon a change-of-control event, as described in the indenture, at a repurchase price equal to 100% of the principal amount of the 8% notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding the repurchase date. The 8% notes are unsecured and subordinate to the Company s existing and future senior debt and senior to the Company s existing 7 1/4% convertible subordinated debentures (7 1/4% debentures) and 8 1/4% convertible senior subordinated debentures (8 1/4% debentures). The 8% notes rank on parity with the Company s existing 7 3/4% convertible senior subordinated notes (7 3/4% notes).

The Company has used the net proceeds from the sale of the 8% notes to repay amounts outstanding under its amended and restated credit agreement. The Company redeemed all of the outstanding 8 1/4% debentures on December 23, 2005 in the amount of $17,538 and all of the outstanding 7 1/4% debentures on December 30, 2005 in the amount of $4,753 by borrowing amounts under the amended and restated credit agreement to effect these redemptions.

In October 2004, the Company renewed its multi-currency revolving credit agreement with the current lending group in the amount of approximately $109,000 (the size of the credit line varies based on fluctuations in foreign currency exchange rates). The agreement expires in October 2009, and the outstanding balance at that time will become due. At December 3, 2005, $24,989 was outstanding under the amended and restated credit agreement. The amended and restated credit agreement is principally secured by the Company s trade receivables and inventory. The amended and restated credit agreement bears interest at applicable LIBOR rates plus a margin, varying with certain financial performance criteria. At December 3, 2005, the applicable margin was 2.25%. Outstanding letters of credit were $2,166 at December 3, 2005, leaving an unused line of $81,536 under the total amended and restated credit agreement; however, this amount was reduced to $24,495 due to maximum permitted leverage ratios. The commitment fee related to the amended and restated credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment. The Company s multi-currency revolving credit agreement consists of the following facilities as of December 3, 2005:

	Capacity	Amount Outstanding	Interest Rate
US Facility	$ 70,000	$ 1,300	6.75%
Canada Facility	14,607	7,358	4.25%
Sweden Facility	7,932	7,932	3.63%
UK Facility	7,793	4,156	6.62%
Euro Facility	5,868	2,582	4.19%
Japan Facility	2,491	1,661	1.85%
Total	$ 108,691	$ 24,989	4.41%

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Note: Due to maximum permitted leverage ratios, the amount of the unused line cannot be calculated on a facility-by-facility basis.

On August 24, 2005, the Company executed an amendment to the amended and restated credit agreement. The amendment changed the maximum permitted leverage ratios and the minimum required fixed charge coverage ratios for each of the first three quarters of fiscal 2006 to provide the Company additional flexibility for these periods. In addition, the amendment also provided that the Company will maintain excess availability on the borrowing base of not less than $23,000 until the 8 1/4% and 7 1/4% debentures were redeemed, at which time the Company will maintain excess availability of the borrowing base of not less than $10,000. The applicable margin pricing was increased by 25 basis points. In addition, the amendment extended the Company s requirement to refinance the remaining $22,291 aggregate principal amount of the Company s 7 1/4% debentures and the 8 1/4% debentures from February 28, 2006 to June 10, 2006.

At September 3, 2005, the Company was not in compliance with its amended and restated credit agreement covenants with respect to the tangible net worth covenant due solely to the additional goodwill recorded as a result of the Kern acquisition. On October 12, 2005, the Company received a waiver from its lending group for the default and executed an amendment to the amended and restated credit agreement. The amendment changed the minimum tangible net worth requirement to adjust for the goodwill associated with the Kern acquisition. At December 3, 2005, the Company was in compliance with its amended and restated credit agreement covenants.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation*. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) is effective at the beginning of the next fiscal year that begins after June 15, 2005, or the Company s fiscal year 2007. The Company is evaluating the impact of the adoption of SFAS No.123(R) on the financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management and Market Sensitive Financial Instruments

The Company s foreign denominated assets and liabilities are cash, accounts receivable, inventory, accounts payable, and intercompany receivables and payables, primarily in Canada and member countries of the European Union and, to a lesser extent, in Asia/Pacific and Latin America. The Company has not entered into any forward contracts to hedge significant transactions in fiscal 2006 or fiscal 2005. Other tools that the Company may use to manage foreign exchange exposures include the use of currency clauses in sales contracts and the use of local debt to offset asset exposures.

As discussed above, the Company s debt financing expense, in part, varies with market rates exposing the Company to the market risk from changes in interest rates. Certain operations, assets, and liabilities are denominated in foreign currencies subjecting the Company to foreign currency exchange risk. In order to provide the user of these financial statements guidance regarding the magnitude of these risks, the Securities and Exchange Commission requires the Company to provide certain quantitative disclosures based upon hypothetical assumptions. Specifically, these disclosures require the calculation of the effect of a uniform 10% strengthening of the U.S. dollar against foreign currencies on the reported net earnings and financial position of the Company.

Had the U.S. dollar strengthened 10% against various foreign currencies, sales would have been lower by an estimated $6,400 and $12,400 for the three and six months ended December 3, 2005, respectively, and $6,000 and $11,200 for the three and six months ended November 27, 2004, respectively. Total assets would have declined by an estimated $11,400 as of the second quarter ended December 3, 2005 and an estimated $10,600 as of the fiscal year ended May 28, 2005, while the total liabilities would have decreased by an estimated $4,300 as of the second quarter ended December 3, 2005 and an estimated $4,200 as of the fiscal year ended May 28, 2005.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in interest rates and exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect the Company s operations.

For an additional description of the Company s market risk, see Item 7A Quantitative and Qualitative Disclosures about Market Risk Risk Management and Market Sensitive Financial Instruments in the Company s Annual Report on Form 10-K/A for the fiscal year ended May 28, 2005.

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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) as of December 3, 2005. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures were not effective as of December 3, 2005 due to material weaknesses in the Company s internal control over financial reporting disclosed in Item 9A. Controls and Procedures of the Company s Annual Report on Form 10-K/A for the fiscal year ended May 28, 2005. The weaknesses were (1) deficiencies in the Company s control environment, (2) inadequate controls associated with the accounting for income taxes, (3) inadequate financial statement preparation and review procedures, and (4) deficiency related to the application of accounting literature. To address these material weaknesses, the Company has expanded its disclosure controls and procedures to include additional analysis and other post-closing procedures. Accordingly, management believes that the financial statements included in this report fairly present in all material respects the Company s financial position, results of operations, and cash flows for the periods presented.

(b) Changes in Internal Control over Financial Reporting

There were nine changes in the Company s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the first six months of fiscal 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

In June 2005, the Company hired a Director of Tax to increase its focus on processes and procedures associated with accounting for income taxes;

The Company has implemented a program to provide training for accounting personnel in the Company s foreign subsidiaries, which has been provided to the Company s European and Asia/Pacific subsidiaries;

The Company has enhanced its account reconciliation process to ensure that accounts are being reconciled on a timely basis, the reconciliations are independently reviewed, and any reconciling items are cleared on a timely basis;

The Company has implemented a system to review and approve journal entries through system automation;

The Company has implemented formal procedures for financial statement variance analysis and balance sheet reconciliations. The monthly closing schedule is formally communicated to all subsidiaries;

The Company has improved documentation of management review and reconciliation performance through policies, education and re-enforcement, a listing of employees who reconcile and approve balance sheet account reconciliations, and the implementation of key financial manager checklists;

The Company has engaged outside tax professionals to provide global compliance and reporting services to ensure that the Company has appropriate resources to conduct timely reviews and evaluations of the Company s current and deferred tax provisions, deferred tax assets and liabilities, and related complex tax issues;

The Company has developed a policy related to controls over end-user computing; and

The Company hired a Director of Internal Audit to assist the Company in its ongoing evaluation and monitoring of internal control over financial reporting.

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(c) Remediation Efforts to Address Material Weaknesses in Internal Control over Financial Reporting

In order to remediate the material weaknesses identified in internal control over financial reporting and ensure the integrity of our financial reporting processes, the Company has implemented or is in the process of implementing the measures described in Item 4(b) above, as well as continuing to train its other foreign subsidiaries throughout fiscal 2006.

In addition, in an effort to improve internal control over financial reporting, the Company continues to emphasize the importance of establishing the appropriate environment in relation to accounting, financial reporting, and internal control over financial reporting and the importance of identifying areas for improvement and to create and implement new policies and procedures where material weaknesses or significant deficiencies exist.

It should be noted the Company s management, including the Chief Executive Officer and the Chief Financial Officer, do not expect that the Company s internal controls will prevent all error and all fraud, even after completion of the described remediation efforts. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On December 20, 2002, the Company filed a complaint against Signal Technology Corporation in the United States District Court for the Northern District of Illinois, which the Company dismissed on February 27, 2003. On February 14, 2003 Signal Technology filed a declaratory judgment against the Company in Superior Court, Boston, Massachusetts, and on March 4, 2003, the Company filed a complaint against Signal Technology in the Circuit Court of Cook County, Illinois. On February 13, 2004, the Company dismissed the complaint in Circuit Court, Cook County, Illinois. From November 6, 2000 through December 6, 2001, Signal Technology issued six purchase orders to purchase low-frequency amplifiers and other electronic components from the Company and subsequently refused to take delivery of the components. The Company initially claimed damages of approximately $2.0 million resulting from the dispute concerning Signal Technology s obligation to take delivery. Signal Technology s declaratory judgment suit in Massachusetts seeks a ruling that it has no liability to the Company, but Signal Technology had not asserted any claim against the Company. The Company entered into a Settlement Agreement and Mutual Release with Signal Technology effective November 16, 2005. Pursuant to the settlement, the Company received a cash payment of $325,000, retained the remaining inventory, and the parties provided mutual releases without any admission of liability. The pending litigation was dismissed on November 30, 2005.

In fiscal 2003, two customers of the Company s German subsidiary asserted claims against the Company in connection with heterojunction field effect transistors the Company sold to them. The Company acquired the heterojunction field effect transistors from the manufacturer pursuant to a distribution agreement. The customers claimed that the heterojunction field effect transistors did not meet the specification provided by the manufacturer. The Company notified the manufacturer and its insurance carrier of these claims. In fiscal 2005, the claim of one of the two customers was settled without any admission of liability on the part of the Company, with a full release from liability, and without any material consideration from the Company, the settlement amount being paid by the Company s insurance carrier. On December 12, 2005, the claim of the second of the two customers was settled without any admission of liability on the part of the Company, with a full release from liability, and without any material consideration from the Company, the settlement amount being paid by the Company s insurance carrier.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders held October 18, 2005, two proposals were submitted to a vote of the Company s stockholders: (1) the election of directors; and (2) the adoption of the Richardson Electronics, Ltd. 2006 Stock Option Plan for Non-Employee Directors. Stockholders present in person or by proxy holding shares representing 44,133,308 votes out of a total of 45,473,296 votes entitled to be voted at the meeting were present, which was more than the number of votes necessary to constitute a quorum. The following table sets forth the results of the voting:

Proposal	Number of affirmative votes	Withheld authority		
1. Election of Directors				
Edward J. Richardson	38,504,455	5,628,853		
Scott Hodes	37,657,382	6,475,926		
Samuel Rubinovitz	40,808,903	3,324,405		
Arnold R. Allen	38,448,446	5,684,862		
Jacques Bouyer	40,760,271	3,373,037		
Harold L. Purkey	40,753,948	3,379,360		
Ad Ketelaars	43,216,989	916,319		
Bruce W. Johnson	38,303,723	5,829,585		
John R. Peterson	40,753,948	3,379,360		
Proposal	For	Against	Abstain	Not Voted
2. Adoption of Stock Option Plan	38,074,767	3,573,332	72,116	2,413,093

Each of the proposals set forth above received more than the required number of votes for approval and was therefore duly and validly approved by the stockholders.

ITEM 5. OTHER INFORMATION

On January 10, 2006, the Company s Board of Directors amended the Company s Corporate Code of Conduct (the Code of Conduct). Among other non-material changes, the amendments clarify that, to the extent that the laws of any jurisdiction in which the Company operates conflict with a provision of the Code of Conduct, such laws will control the obligations of any Company employee employed in such jurisdiction.

The Code of Conduct is attached hereto as Exhibit 14 and is incorporated herein by reference.

On January 10, 2006, William G. Seils retired as General Counsel, Senior Vice President and Secretary of the Company and will remain as Of Counsel and Assistant Secretary of the Company. Mr. Seils resignation from his corporate offices was accepted by the Company and the Company appointed David J. Gilmartin as General Counsel, Vice President and Secretary to succeed Mr. Seils. Mr. Gilmartin was previously employed by the Company as its Assistant General Counsel, Vice President and Assistant Secretary from July 2004. Prior to that, Mr. Gilmartin served as Vice President of Legal for SBI Group Inc. from December 2002 to July 2004 and Deputy General Counsel to Lante Corporation from January 2002 until it was acquired by SBI Group Inc. in September 2002. Prior to that, Mr. Gilmartin served as Corporate Counsel to Alliant Foodservice, Inc. from May 1999 to January 2002.

ITEM 6. EXHIBITS

See exhibit index.

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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.

By: /s/ David J. DeNeve

Date: August 31, 2006

David J. DeNeve

Senior Vice President and

Chief Financial Officer

(on behalf of the Registrant and

as Principal financial and accounting officer)

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Exhibit Index

(c) EXHIBITS

Exhibit Number	Description
3(a)	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, Commission File No. 33-8696.
3(b)	By-laws of the Company, as amended, incorporated by reference to Exhibit 3(b) to the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 1997, Commission File No. 000-12906.
10(am)	Employment, Nondisclosure and Non-Compete Agreement dated June 1, 2004 by and between the Company and David J. Gilmartin, incorporated by reference to Exhibit 10(am) to the Company s Quarterly Report on Form 10-Q for the quarter ended December 3, 2005, Commission File No. 000-12906.
14	Corporate Code of Conduct, as amended January 10, 2006, incorporated by reference to Exhibit 14 to the Company s Quarterly Report on Form 10-Q for the quarter ended December 3, 2005, Commission File No. 000-12906.
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 David J. DeNeve 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).