ENDO PHARMACEUTICALS HOLDINGS INC
Form 10-Q
August 01, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008.

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: 001-15989

ENDO PHARMACEUTICALS HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-4022871**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

100 Endo Boulevard

Chadds Ford, Pennsylvania 19317

(Address of Principal Executive Offices)

(610) 558-9800

(Registrant s Telephone Number, Including Area Code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, $0.01 par value	Shares outstanding as of July 25, 2008: 120,288,504

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ENDO PHARMACEUTICALS HOLDINGS INC.

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FORWARD LOOKING STATEMENTS

Statements contained or incorporated by reference in this Quarterly Report on Form 10-Q contain information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements, including estimates of future net sales, future expenses, future net income and future earnings per share, contained in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on February 26, 2008, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. Also, statements including words such as believes, expects, anticipates, intends, estimates, plan, will, may or similar expressions are forward-looking statements. We these forward-looking statements on our current expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described under the caption Risk Factors in Item 1A of Amendment No. 1 on Form 10-K/A for the year ended December 31, 2007, filed with the Securities and Exchange Commission on April 29, 2008, and as otherwise enumerated herein or therein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained in Amendment No. 1 on Form 10-K/A. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward-looking statements in Amendment No. 1 on Form 10-K/A include those factors described herein under the caption Risk Factors and in documents incorporated herein by reference, including, among others:

- our ability to successfully develop, commercialize and market new products;
- timing and results of pre-clinical or clinical trials on new products;
- our ability to obtain regulatory approval of any of our pipeline products;
- competition for the business of our branded and generic products, and in connection with our acquisition of rights to intellectual property assets;
- market acceptance of our future products;
- government regulation of the pharmaceutical industry;
- our dependence on a small number of products;
- our dependence on outside manufacturers for the manufacture of our products;
- our dependence on third parties to supply raw materials and to provide services for certain core aspects of our business;
- new regulatory action or lawsuits relating to our use of narcotics in most of our core products;
- our exposure to product liability claims and product recalls and the possibility that we may not be able to adequately insure ourselves;

our ability to protect our proprietary technology;

the successful efforts of manufacturers of branded pharmaceuticals to use litigation and legislative and regulatory efforts to limit the use of generics and certain other products;

our ability to successfully implement our acquisition and in-licensing strategy;

regulatory or other limits on the availability of controlled substances that constitute the active ingredients of some of our products and products in development;

the availability of third-party reimbursement for our products;

the outcome of any pending or future litigation or claims by third parties or the government;

our dependence on sales to a limited number of large pharmacy chains and wholesale drug distributors for a large portion of our total net sales;

significant litigation expenses to defend or assert patent infringement claims;

any interruption or failure by our suppliers, distributors and collaboration partners to meet their obligations pursuant to various agreements with us;

a determination by a regulatory agency that we are engaging in inappropriate sales or marketing activities, including promoting the off-label use of our products;

existing suppliers become unavailable or lose their regulatory status as an approved source, causing an inability to obtain required components, raw materials or products on a timely basis or at commercially reasonable prices;

the loss of branded product exclusivity periods and related intellectual property;

our exposure to securities that are subject to market risk; and

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the holders of our 1.75% Convertible Senior Subordinated Notes due April 15, 2015 (the Convertible Notes) could require us to repurchase the principal amount of the notes for cash before maturity of the notes upon the occurrence of a Fundamental Change, as defined in the indenture relating to the Convertible Notes. Such a repurchase could require significant amounts of cash and could adversely affect our financial condition.

We do not undertake any obligation to update our forward-looking statements after the date of this Report for any reason, even if new information becomes available or other events occur in the future. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q, 10-K, 10-K/A and 8-K reports to the Securities and Exchange Commission (or SEC). Also note that we provide the preceding cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the preceding to be a complete discussion of all potential risks or uncertainties.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 565,177	$ 350,325
Marketable securities	34,636	313,386
Accounts receivable, net	234,153	249,784
Inventories	89,406	69,228
Prepaid expenses and other current assets	18,196	26,539
Deferred income taxes	59,626	56,185
Total current assets	1,001,194	1,065,447
MARKETABLE SECURITIES	263,353	283,339
PROPERTY AND EQUIPMENT, Net	46,411	44,920
GOODWILL	181,079	181,079
OTHER INTANGIBLES, Net	224,812	70,949
NOTE RECEIVABLE		45,971
DEFERRED INCOME TAXES	46,783	4,211
OTHER ASSETS	7,847	6,722
TOTAL ASSETS	$ 1,771,479	$ 1,702,638
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 149,922	$ 178,869
Accrued expenses	193,589	185,264
Due to Endo Pharma LLC	342	685
Estimated amount due seller, current portion		15,000
Income taxes payable	3,919	17,140
Total current liabilities	347,772	396,958
CONVERTIBLE SENIOR SUBORDINATED NOTES DUE 2015	370,780	
OTHER LIABILITIES	53,363	13,390
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value; 40,000,000 shares authorized; none issued		
Common stock, $0.01 par value; 350,000,000 shares authorized; 134,196,329 and 134,144,993 shares issued; 120,264,110 and 134,144,993 outstanding at June 30, 2008 and December 31, 2007, respectively	1,342	1,341
Additional paid-in capital	668,427	704,305
Retained earnings	702,172	583,619

Accumulated other comprehensive (loss) income	(26,925)	3,025
Treasury stock, 13,932,219 and 0 shares at June 30, 2008 and December 31, 2007, respectively	(345,452)	
Total stockholders equity	999,564	1,292,290
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,771,479	$ 1,702,638

See Notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
NET SALES	$ 306,161	$ 257,147	$ 596,432	$ 511,556
COSTS AND EXPENSES:				
Costs of sales	62,993	54,690	119,527	104,315
Selling, general and administrative	126,524	88,465	241,526	182,586
Research and development	26,497	27,620	60,079	55,373
Impairment of other intangible assets	8,083		8,083	
OPERATING INCOME	82,064	86,372	167,217	169,282
INTEREST EXPENSE	2,449		2,719	47
INTEREST AND OTHER INCOME	(7,025)	(8,264)	(16,278)	(15,329)
INCOME BEFORE INCOME TAX	86,640	94,636	180,776	184,564
INCOME TAX	27,615	34,090	62,223	66,869
NET INCOME	$ 59,025	$ 60,546	$ 118,553	$ 117,695
NET INCOME PER SHARE:				
Basic	$ 0.48	$ 0.45	$ 0.92	$ 0.88
Diluted	$ 0.48	$ 0.45	$ 0.92	$ 0.88
WEIGHTED AVERAGE SHARES:				
Basic	122,985	133,820	128,561	133,725
Diluted	123,531	134,504	129,078	134,395

See notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six Months Ended June 30, 2008	2007
ATING VITIES:		
come	$ 118,553	$ 11
ments to ile net e to net cash ed by ng es:		
ciation and zation	19,927	
based nsation	8,958	
t earned on ble-for-sale ies	(2,201)	
ization of suance costs um/discount	1,175	
ed income	(3,101)	
ment of ved assets	11,198	
gain) on al of ty and nent	55	
es in assets bilities provided cash:		
nts able	15,631	5
ories	(20,178)	(1
eceivable	(416)	
d and other	4,214	
nts payable	(26,259)	
ed expenses	9,660	
iabilities	(5,292)	
e taxes e	(13,221)	
sh provided rating	118,703	20

es

STING VITIES:			
se of ty and nent	(13,385)		(
se of ble-for-sale ies	(134,211)		(36
of ble-for-sale ies	401,277		
ds from the property uipment	27		
oal nts on note able	3,333	14	

Individual compensation of other executive officers has been established to maintain equitable internal relationships taking into acc the responsibilities, experience, seniority, and work performance of the individual executive, the overall performance of the Company an unit or area of responsibility of the executive, the strategic objectives and budget considerations of the Company and competitive industr practices. The relative weight given to each of these factors varies from individual to individual and from year to year. Increases in execu officers' base salaries for the year ended May 31, 2003 ranged from 4% to 13% and increases in base salaries of executive officers for the ending May 31, 2004 have been deferred for an indefinite period due to economic conditions.

A significant portion of each executive officer's compensation is in the form of a bonus (in fiscal 2003 it was budgeted to be from 50 60% of base compensation depending on the executive) which is performance-related. Bonuses are designed to reward executives for achieving and exceeding Company performance goals and/or individual performance goals. Bonuses or portions thereof, in fiscal 2003, f certain executive officers were based upon targeted levels of the Company's earnings. For bonuses or portions thereof based upon individ performance, the performance criteria or goals varied with each executive as set by the Compensation Committee with recommendation the Chief Executive Officer after the executive's annual review. For example, an executive responsible for a business unit may receive a bonus or a portion thereof based upon the business unit meeting its financial goals while an executive in charge of other functions may re a bonus or portion thereof based upon his achieving individual performance objectives which are generally subjective, established specif for him by the Compensation Committee with recommendation from the Chief Operating Officer or Chief Executive Officer. For the fisc year ended May 31, 2003, such individual performance bonuses or portions thereof were paid at percentages of target, ranging from 71% 100%. Financial measures (e.g. earnings per share, return on invested capital, gross margin) and targets for each executive officer are set the beginning of the fiscal year by the Compensation Committee with recommendation from the Chief Executive Officer, or the Chief Operating Officer after review by the Chief Executive Officer, although discretionary adjustments are possible should unforeseen events occur.

Salary levels, bonus criteria and performance objectives for the Company's executive officers are examined each year to take into account factors discussed above and other additional factors believed appropriate at the time. Executive compensation structures and leve for each year's targeted overall Company and individual performance goals are determined following regular structured annual reviews o each executive officer conducted by the Chief Executive Officer and/or Chief Operating Officer. Target performance levels take into acc historic patterns of Company performance and strategic objectives.

Individual stock option grants in fiscal 2003 were determined giving consideration to the factors discussed above, previous option g and to give the executive officers additional incentive to improve the overall performance of the Company. This resulted in total options granted to executive officers in fiscal 2003 of 50,000 shares, and restricted stock awards aggregating 27,398 shares. All such options hav exercise price that is equal to 100% of the Fair Market Value of the Company's Common Stock on the date of grant. The Chief Executive Officer does not participate in these plans.

In addition, all executive officers, including the Chief Executive Officer, participate in broad based benefits generally available to a U.S. employees of the Company, such as medical, dental, disability, life insurance, profit sharing (which includes a 401(k) feature), employees' stock ownership and employees' stock purchase plans.

The Omnibus Budget Reconciliation Act of 1993 (the "Act") amended the Internal Revenue Code, Section 162(m), to limit deductib for the Company for income tax purposes of compensation paid to the Chief Executive Officer and the 4 other highest paid executive off to $1 million per year, per person, subject to certain exceptions. The Company does not currently have any executive exceeding that limitation. If at a future date it appears likely that such limitation may be exceeded, the Committee will consider recommending restructu of executive compensation programs in light of the requirements of the Act and the regulations that may be promulgated thereunder to pe them to meet the exceptions to the limitation so such compensation may continue to be deductible.

JACQUES BOUYER
SCOTT HODES
SAMUEL RUBINOVITZ

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The following graph sets forth the cumulative total stockholder return (assuming reinvestment of dividends) to the Company's stockholders during the five-year period ended May 31, 2003, as well as a broad equity market index (NASDAQ Stock Market (US & Foreign) Index) and a published industry index (NASDAQ Electronic Component Stock Index). All three indices reflect the value of an investment of $100 made on May 29, 1998. The stock price performance shown below is not necessarily indicative of future stock price performance.

PERFORMANCE GRAPH

Comparison of Five year Cumulative Total Return among Richardson Electronics Stock Index, NASDAQ Composite Index, and NASDAQ Electronic Components Index

REPORT OF THE AUDIT COMMITTEE

Pursuant to its written Charter, the Audit Committee has:

Reviewed and discussed the audited financial statements with management and with the independent auditors.

Discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards Bo
No. 61.

Received the written disclosures from the independent auditors required by Independence Standards Board Standard
No. 1, and has discussed with the independent auditors the auditors' independence, and considered the compatibility o
non-audit services provided to the Company by the auditors with their independence.

Based on the review and discussion above, recommended to the Board of Directors (and the Board of Directors has accepted the recommendation) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

Management is responsible for the Company's financial reporting process including its system of internal control, and for the prepar of consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditors a responsible for auditing those financial statements. The responsibility of the Audit committee is to monitor and review these processes. It not the Audit

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Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. The Committee members are not employees the Company and they may not be, and they may not represent themselves to be or to serve as, accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the Committee has relied, without independent verification, on management's representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principle generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Company's financial statements. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Committee's considerations and discussions with management and the independent auditors do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carr out in accordance with generally accepted auditing standards or that the Company's independent accountants are in fact "independent."

FEES OF AUDITOR

The following table sets forth the aggregate fees billed for each of the last two years for professional services rendered by the Comp principal accountant.

	2002	2003
Audit Fees(1)	$ 240,000.00	$ 346,800.
Audit-related Fees	0	
Tax Fees(2)	824,074.00	518,302.
All Other Fees(3)	0	2,800.

(1) The Audit Fees were for professional services rendered by Ernst & Young LLP for the audit of the Company's annual financial statements included in the Company's Annual Reports on Form 10-K for the fiscal years ended May 31, 2002 and 2003, the rev of the Company's financial statements included in the Company's Quarterly Reports on Form 10-Q during such fiscal years and statutory audits for certain of its non-U.S. subsidiaries.

(2)

Tax fees were for tax planning and compliance.

(3)

Other fees billed by Ernst & Young LLP were for fees related to an audit of the Company by US Customs.

The Audit Committee considered and determined that the provision of services to the Company by Ernst & Young LLP for which th received fees (other than Audit Fees) as noted above was compatible with maintaining the principal accountant's independence.

Audit Fees are reviewed and specifically approved by the Audit Committee on an annual basis. On April 7, 2003, the Audit Commi established formal policies and procedures for the pre-approval of audit-related tax and other fees. These procedures include a review an pre-approval of an annual budget covering the nature of and amount to be expended for auditor services by specific categories of service be provided. In addition, services not anticipated in the budget (so long as they are permitted services) or which exceed the budgeted am may be authorized by the Company's Chief Financial Officer if $20,000 or less, and if more than $20,000, with the approval of the Chair of the Audit Committee and in each case with a submission and approval by the full Audit Committee at its next regularly quarterly sche meeting.

Members of the Audit Committee:

Scott Hodes
Harold L. Purkey
John R. Peterson

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PROPOSAL TO APPROVE AN AMENDMENT TO THE RICHARDSON ELECTRONICS, LTD. EMPLOYEES' 1999 STOCK PURCHASE PLAN

The Company's Employees' Stock Purchase Plan adopted in 1983 and continued with the 1996 Stock Purchase Plan adopted in 199 the 1999 Plan adopted in 1999, the purpose of which was to attract, motivate and retain personnel by offering employees of the Compan through the grant of stock options (at 85% of the fair market value of such stock on the date of grant, or the date of exercise, whichever i lower) the opportunity to participate in the appreciation in value of the Company's Common Stock which may result from their performa The shares available for purchase under such Plans are nearly exhausted. On July 15, 2003, the Board of Directors of the Company adop subject to stockholder approval, an amendment to the Richardson Electronics, Ltd. Employees' 1999 Stock Purchase Plan ("Purchase Pla increase the number of shares subject to the Purchase Plan by 100,000 shares so as to permit the Company to continue to offer this empl benefit. The full text of the amendment is set forth in Exhibit A to this proxy statement. The Purchase Plan is designed to comply with th requirements of Section 423 of the Internal Revenue Code and Section 16b of the Securities Exchange Act of 1934. It is not subject to th Employee Retirement Income Security Act of 1974, nor subject to the qualification provisions of Section 401a of the Internal Revenue C

The Purchase Plan is administered by the members of the Stock Option Committee appointed by the Board of Directors who are "Non-Employee Directors" as that term is defined in Rule 16b-3 of the Securities and Exchange Commission. No member of the Commi is eligible to participate in the Purchase Plan. The Committee is authorized to fix grant dates for options to be granted under the Purchase Plan, interpret the Purchase Plan, and control and manage the operations and administration of the Purchase Plan pursuant to such rules a regulations as it may from time to time adopt for carrying out the purposes of the Purchase Plan.

Subject to adjustments in accordance with the provisions of the Purchase Plan as amended, 350,000 shares of the Company's Comm Stock, $.05 par value (the "Common Stock") are reserved for issuance on exercise of options granted pursuant to the Purchase Plan. Suc shares may be either authorized, but unissued shares of the Company, or shares which have been or may be reacquired by the Company including treasury shares.

All regular employees of the Company and its subsidiaries who are designated by the Committee, who work more than 20 hours a w or more than five months during the year, may participate in the Purchase Plan. However, no employee may participate, if immediately a the option is granted, such employee beneficially owns (directly or by attribution) 5% or more of the Company's Common Stock, and no option may be granted to any employee which would permit his or her right to purchase Common Stock pursuant to any unexpired offeri under the Purchase Plan and any other employee stock purchase plan to accrue at a rate which exceeds $25,000 during any calendar year based on the fair market value of such stock as determined on the grant date. The decision to participate is voluntary on behalf of the employee. Currently there are approximately 817 persons eligible to participate. All eligible employees are given written notice of a gran date and the opportunity to elect to participate through payroll deductions between 1 and 10% of their annual base compensation up to a maximum of $250,000 of compensation.

The Committee will from time to time, as of a specified date (the "Grant Date"), offer options for shares of Common Stock to eligib employees on the date it so designates (an "Offering"). Subsequent Grant Dates will not be less than approximately one year apart. Eligib employees may become participants by completing and delivering to the Company such election and other forms as are required by the Committee, including a payroll deduction form, at least ten days before a Grant Date. A participant cannot increase or decrease the amou his or her payroll deduction during the term of an option unless an adjustment in his or her compensation occurs, in which case, absent instructions to the contrary, his or her payroll deduction will be automatically adjusted to reflect such change. An Employee Stock Purch Plan Account (the "Account") is established for each participant and payroll deductions are credited to the Account. No interest is paid o amounts in such Accounts.

Unless a participant gives written notice of termination or his or her employment is terminated prior to the exercise date of an optio each option is exercised automatically on the last business day prior to the last business day of the eleventh calendar month following the month of the Grant Date for such number of full shares as may be purchased with the accumulated payroll deductions credited to his or h Account on that date.

The purchase price for the shares covered by options granted under the Purchase Plan will be equal to 85% of the fair market value shares on the Grant Date or the date of exercise, whichever is lower. The fair market value of the shares on a date is equal to (i) the mean the closing bid and asked quotations (as reported

by NASDAQ), or (ii) if the Common Stock is traded on a securities exchange, the last sale price of the Common Stock on such exchange term of each option will expire on the last business day of the eleventh calendar month following the month of the Grant Date.

In the event an Offering is oversubscribed, the Committee may, in its sole discretion, either increase the number of shares in the Off or make a pro rata allocation of available shares in the Offering in such a manner as it deems uniform and equitable. However, if the Committee decides to make a pro rata allocation, the payroll deductions elected by participants will be proportionately reduced to proper effectuate such allocation and the Committee will notify each participant in writing of such allocation.

An employee's rights or options under the Purchase Plan are exercisable only by him or her during his or her lifetime, and such righ options may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. Any attempt to sell, pledge, assign or transfer such rights or options shall be without effect, except that the Company may treat such act as an election to terminate an option.

The Board of Directors may from time to time amend or terminate, consistent with applicable laws and regulations, the Purchase Pl without action by the Company's stockholders, except for an amendment which would (i) increase the aggregate number of shares of the Company's Common Stock subject to the Plan, (ii) alter the classification of employees eligible to participate, (iii) increase the option pri or (iv) cause the Purchase Plan not to qualify as an "employee stock purchase plan" under section 423(b) of the Internal Revenue Code, a no amendment or termination of the Purchase Plan shall impair or adversely alter any outstanding Option without the consent of the emp participant therein.

Federal Income Tax Consequences

The federal income tax consequences of an option offering under the Purchase Plan, and the exercise thereof and the disposition of shares so acquired are summarized below. The Company expresses no opinion as to the tax consequences of an option offering, an exerc or a disposition of shares acquired as to any particular employee. The funds deducted from the employee's pay are included in the employ ordinary compensation and will be taxable in the year in which earned. The options granted under the Purchase Plan, however, are intend qualify as options granted under Section 423 of the Internal Revenue Code, and, in general, the employee will not realize taxable income the time of grant, or option exercise and purchase of shares. Upon disposition of the shares acquired upon exercise of an option granted u the Purchase Plan (provided they are held for at least 2 years after the Grant Date and 1 year after the Exercise Date), the employee will realize ordinary income on the disposition to the extent of the lesser of (1) the amount by which the fair market value of the stock at the t the option was granted exceeded the option price, and (2) the amount by which the fair market value of the stock at the time of dispositio the stock exceeded the price paid. Any further gain is taxed as capital gain. Where an employee sells the stock before the expiration of th required holding period, he realizes ordinary income (compensation) to the extent of the difference between the option price and the fair market value of the stock at the date the option was exercised. The Company is entitled to a tax deduction to the extent the employee recognizes ordinary income subject to the limitations of Section 162(m) of the Internal Revenue Code.

Interest of Directors, Nominees and Executive Officers

Non-employee directors are not eligible to participate in the Purchase Plan. All employee directors and executive officers are eligibl participate, however, except as set forth in the above described limitations in the Purchase Plan, it is not possible to identify which of suc persons will elect to participate in offerings under the Purchase Plan or the extent of their participation, because this will be determined i future to the extent the Company makes an offering and then to the extent the person elects to participate. For the offer that ended May 3 2003, a total of 133 employees participated of which 2 were executive officers. A total of 51,173 shares were purchased having a value (on the difference between the price paid and the market price of the stock

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at that date) of $69,083.55, of which amount 1,454 shares having a value of $1,962.90 were purchased by executive officers.

Plan Category	Number of Securities to be Issued Upon Exercise of outstanding Options, Warrants and Rights	Weighted Average Per Share Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity Compensation Plans Approved by Security Holders	1,759,387	$ 9.25	954,023
Equity Compensation Plans Not Approved by Security Holders	23,563(1)	$ 12.95(1)	5,939(2)
Total	1,782,950	$ 9.30	959,962

(1) The Company has issued options pursuant to a contract to Arnold Allen, former President of the Company (see "Election of Directors Directors Compensation" page 10).

(2) The Company has also established The Florence Richardson Award pursuant to which annually one employee of the Company selected by a committee of employees for outstanding achievement to receive an award of shares of Common Stock of the Company having a market value of $5,000.

Stockholder Vote

The affirmative vote of the holders of shares possessing a majority of the voting power present in person or represented by proxy an entitled to vote at the meeting is required to adopt the proposed amendment to the Purchase Plan. The amendment to the Purchase Plan a options granted thereunder will terminate and become null and void if the amendment to the Purchase Plan is not approved by the stockholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE PROPOSAL REGARDI THE AMENDMENT OF THE RICHARDSON ELECTRONICS, LTD. EMPLOYEES' 1999 STOCK PURCHASE PLAN.

PROPOSAL TO RATIFY THE APPOINTMENT OF THE COMPANY'S
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

On August 21, 2003, the Audit Committee of the Board of Directors determined to engage KPMG LLP ("KPMG") to serve as the Company's independent certified public accountants for the fiscal year ending May 31, 2004 to replace Ernst & Young LLP ("E&Y") wh had served as the Company's auditors since December 1981.

Although the Audit Committee is not required to do so, it is submitting its selection of the Company's independent certified public accountants for ratification at the Annual Meeting in order to ascertain the views of its shareholders. The Audit Committee will not be bo by the vote of the shareholders; however, if the selection is not ratified, the Audit Committee would reconsider its selection.

E&Y's reports on the Company's consolidated financial statements for the years ended May 31, 2003 and 2002, did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended May 31, 2003 and 2002, and the subsequent period through August 21, 2003, there were no disagreements v E&Y on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolv E&Y's satisfaction, would have caused E&Y to make reference to the subject matter in connection with their report on the Company's consolidated financial statements for the years ended May 31, 2003 and 2002; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

E&Y was provided with a copy of the foregoing disclosures. A copy of E&Y's letter, dated August 22, 2003, stating their agreemen such statements is attached as Exhibit 16.1 to the Company's Current Report on Form 8-K dated August 22, 2003 filed with the Securitie Exchange Commission.

KPMG and E&Y have each advised the Company that the firm does not have any direct or indirect financial interest in the Compan its subsidiaries, or has such firm had any such interest in connection with the

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Company or its subsidiaries during the past year. Representatives of KPMG LLP and Ernst & Young LLP are expected to be present at th Annual Meeting. These representatives will have the opportunity to make a statement if they desire to do so and will be available to respo to appropriate questions from stockholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.

ANNUAL REPORT

The Company's Annual Report to Stockholders for the year ended May 31, 2003, including financial statements, accompanies this P Statement. However, no action is proposed to be taken at the meeting with respect to the Annual Report, and it is not to be considered as constituting any part of the proxy soliciting material.

STOCKHOLDER PROPOSALS

From time to time, stockholders present proposals which may be proper subjects for inclusion in the proxy statement and for consideration at a meeting. To be considered, proposals must be submitted on a timely basis. Proposals for the 2004 stockholders' meetin submitted pursuant to SEC Rule 14a-8 must be received by the Company no later than May 7, 2004. Any such proposals, as well as any questions related thereto, should be directed to the Secretary of the Company. Any stockholder proposal proposed for submission at our 2 annual meeting outside the process of SEC Rule 14a-8 after July 21, 2004 shall be considered untimely. If such a proposal is submitted a that date, the proxy holder or holders may exercise their discretionary authority, as conferred in the proxy, in voting on such proposal at s meeting.

OTHER MATTERS

The management knows of no other business likely to be brought before the meeting. If other matters do come before the meeting, t persons named in the form of proxy or their substitute will vote said proxy according to their best judgment.

A COPY OF THE COMPANY'S 2003 10-K REPORT IS AVAILABLE WITHOUT CHARGE TO STOCKHOLDERS UPO WRITTEN REQUEST TO: LEGAL DEPARTMENT, RICHARDSON ELECTRONICS, LTD., 40W267 KESLINGER ROAD, BOX 393, LAFOX, IL 60147-0393.

By order of the Board of Directors

EDWARD J. RICHARDSON
Chairman of the Board & Chief Executive Officer

September 4, 2003

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EXHIB

**AMENDMENT TO RICHARDSON ELECTRONICS, LTD.
EMPLOYEES' 1999 STOCK PURCHASE PLAN**

WHEREAS, Richardson Electronics, Ltd. (the "Company") Board of Directors established the Richardson Electronics, Ltd. Employ 1999 Stock Purchase Plan (the "Plan") on April 13, 1999 and approved by the Stockholders on October 12, 1999; amended April 11, 200 and

WHEREAS, it is now desired to increase the number of shares of the Common Stock, $.05 per share par value, of the Company ("Common Stock") which are available for purchase upon the exercise of Options under the Plan by 100,000;

NOW, THEREFORE, the Richardson Electronics, Ltd. Employees' 1999 Stock Purchase Plan is hereby amended as follows:

Section 3.1 of the Plan is hereby amended in its entirety to read as follows:

"Section 3.1 The total number of shares of the Common Stock which are available for purchase upon the exercise of Options under Plan shall be Three Hundred Fifty Thousand (350,000) shares, subject to appropriate adjustment as provided in Article XIX."

This Amendment to the Plan is effective May 30, 2003. The Amendment to the Plan shall be submitted to the stockholders for appro not later than May 30, 2004. If the Amendment to the Plan has not been approved, it shall terminate on such date in accordance with Article XXI of the Plan, and all Options outstanding on such date which would require the issuance of any of the additional 100,000 shar Common Stock authorized by the Amendment if exercised shall be exercised as provided in Section 21.2.

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RICHARDSON ELECTRONICS, LTD.
40W267 Keslinger Road
P.O. Box 393
LaFox, Illinois 60147-0393
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Edward J. Richardson and William G. Seils as Proxies, each with the power to appoint his substitu and hereby authorizes them to represent and to vote, as designated below, all the shares of Common Stock and Class B Common Stock o Richardson Electronics, Ltd. held of record by the undersigned on August 19, 2003, at the Annual Meeting of Stockholders to be held on October 15, 2003 or any adjournment thereof.

1.	ELECTION OF DIRECTORS	o	FOR all nominees listed below (except as marked to the contrary below)	o	WITHHOLD AUTHORITY to vote all nominees listed below

Edward J. Richardson, Bruce W. Johnson, Dario Sacomani, Arnold R. Allen, Jacques Bouyer, Scott Hodes, Ad Ketel
John Peterson Harold L. Purkey and Samuel Rubinovitz.

INSTRUCTION: To withhold authority to vote for any individual nominees write that nominee's name in the space provided below.

2. PROPOSAL TO APPROVE the amendment to the Richardson Electronics, Ltd. Employees' 1999 Stock Purchase Plan to incre the number of shares subject to the Plan by 100,000.

o FOR o AGAINST o ABSTAIN

3. PROPOSAL TO APPROVE notification of the engagement of KPMG LLP as the independent certified public accountants of Richardson Electronics, Ltd. for the fiscal year ending May 31, 2004.

o FOR o AGAINST o ABSTAIN

4. In their discretion the Proxies are authorized to vote upon such other business as may properly come before the meeting.

(continued on other side)

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no directi made, this proxy will be voted for Proposals 1, 2 and 3.

Please sign exactly as name appears below. For joint accounts, all tenants should sign. If signing for an estate, trust, corporation, partnership or other entity, title or capacity should be stated. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

DATED ______________________, 2003

____

Signature

____

Signature if held jointly

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