RICHARDSON ELECTRONICS LTD/DE
Form DEF 14A
August 22, 2014

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý Filed by a Party other than the Registrant ¨
Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under Rule 14a-12

RICHARDSON ELECTRONICS, LTD.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11: (Set forth the amount on which the filing fee is calculated and state how it was determined.)

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.

3) Filing Party:

4) Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

RICHARDSON ELECTRONICS, LTD.
40W267 Keslinger Road
P.O. Box 393
LaFox, Illinois 60147-0393

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 7, 2014

Dear Stockholders:

On behalf of the Board of Directors and Management of Richardson Electronics, Ltd., I cordially invite you to attend the 2014 Annual Meeting of Stockholders. The Annual Meeting will be held on Tuesday, October 7, 2014, at 2:00 p.m. Central Time, at our corporate headquarters at 40W267 Keslinger Road, LaFox, Illinois.
The purpose of the Annual Meeting is to consider and vote on the following matters:

1. The election of six directors nominated by Richardson's Board of Directors for a term expiring at the 2015 Annual Meeting (Proposal 1);

2. To ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2015 (Proposal 2);

3. To approve, on an advisory basis, the compensation of our Named Executive Officers (Proposal 3);

4. To approve an amendment to the 2011 Long-Term Incentive Plan to increase the number of shares available under the plan (Proposal 4);

5. To approve the Amended and Restated Certificate of Incorporation to reduce the number of authorized shares (Proposal 5); and

6. To act upon any other business that may properly come before the meeting or at any adjournment or postponement thereof.

We currently are not aware of any other matters scheduled to come before the Annual Meeting. All stockholders are cordially invited to attend the meeting, although only stockholders of record at the close of business as of August 14, 2014, are entitled to notice of, and to vote at, the Annual Meeting or at any adjournment or postponement thereof.

You are cordially invited to attend the meeting. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented and voted. You may vote via the Internet, telephone or by mail before the Annual Meeting or in person at the Annual Meeting. For specific instructions, please refer to the accompanying proxy card.

This year we are again taking advantage of Securities and Exchange Commission rules that allow us to furnish proxy materials to stockholders via the Internet. We sent notices of Internet availability of proxy materials to holders of our common stock as of the record date on or about August 28, 2014. The notice describes how you can access our proxy materials beginning on August 28, 2014.

By Order of the Board of Directors,
EDWARD J. RICHARDSON

Chairman of the Board, Chief Executive Officer and President

PROXY STATEMENT
TABLE OF CONTENTS

2

RICHARDSON ELECTRONICS, LTD.

PROXY STATEMENT

ANNUAL MEETING INFORMATION

General

The Board of Directors of Richardson Electronics, Ltd. (the “Company,” “we,” “our” or “us”) is soliciting your proxy for the Annual Meeting of Stockholders to be held at our corporate headquarters located at 40W267 Keslinger Road, LaFox, Illinois 60147-0393, on Tuesday, October 7, 2014, at 2:00 p.m. Central Time, and at any and all adjourned or postponed sessions of the Annual Meeting. On or about August 28, 2014, we mailed our stockholders of record a notice of Internet availability of proxy materials, including this proxy statement and our Annual Report on Form 10-K for the fiscal year ended May 31, 2014. All stockholders receiving the notice will have the ability to access the proxy materials over the Internet and to request a paper copy by mail by following the instructions in the notice.

Record Date and Quorum

Stockholders of record at the close of business on August 14, 2014, the record date, are entitled to notice of and to vote their shares at the Annual Meeting. At the record date, 11,806,173 shares of our common stock, and 2,190,644 shares of our Class B common stock were issued and outstanding. The common stock is listed for trading on the NASDAQ Global Market under the symbol RELL. The presence in person or by proxy of the holders of record of a majority of the combined voting power of the outstanding shares of common stock and Class B common stock entitled to vote is required to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes (which occur when a broker indicates on a proxy card that it is not voting on a matter) are considered as shares present at the Annual Meeting for the purpose of determining a quorum.

How to Vote

Stockholders can simplify their voting and reduce Company expenses by voting by telephone or via the Internet. If you vote by telephone or Internet, you do not need to mail back your proxy card. Telephone and Internet voting information is provided on your proxy card. A control number located on the proxy card is designed to verify your identity, allow you to vote your shares and confirm that your voting instructions have been properly recorded.

If your shares are held in the name of a bank or broker, you should follow the voting instructions you receive from the bank or broker. The availability of telephone or Internet voting will depend on your bank or broker’s voting process. If you choose not to vote by telephone or Internet, please return your proxy card properly signed, and the shares represented will be voted in accordance with your directions. You can specify your choices by marking the appropriate boxes on the proxy card.

The election of directors (Proposal 1); the non-binding advisory vote on executive compensation (Proposal 3); the approval of the amendment to the 2011 Long-Term Incentive Plan (Proposal 4); and the approval of the Amended and Restated Certificate of Incorporation (Proposal 5) are “non-discretionary” matters. Therefore, your broker may not vote your shares with respect to these items unless it receives your voting instructions, and if it does not, those votes will be counted as “broker non-votes.” “Broker non-votes” are shares that are held in street name by a bank or broker that indicates on its proxy that it does not have or did not exercise discretionary authority to vote on a particular matter.

If your proxy card is signed and returned without specifying choices, the persons named as proxies will vote in accordance with the recommendations of the Board of Directors. The Board’s recommendation is set forth together with the description of each matter in this Proxy Statement.

3

The Board of Directors recommends that you vote:

- FOR the election of each director nominee (Proposal 1);
- FOR the ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2015 (Proposal 2);
- FOR the approval, on an advisory basis, of the compensation of our Named Executive Officers (Proposal 3);
- FOR the approval of an amendment to the 2011 Long-Term Incentive Plan (Proposal 4); and
- FOR the approval of the Amended and Restated Certificate of Incorporation (Proposal 5).

The Company knows of no other matters scheduled to come before the meeting. If any other matters properly come before the meeting, the proxies solicited hereby will be voted on such matters at the discretion of the persons named as proxies, except proxies that are marked to deny discretionary authority.

We encourage you to vote your shares in advance of the Annual Meeting date even if you plan on attending the Annual Meeting.

Vote Required, Abstentions and Broker Non-Votes

Holders of common stock are entitled to one vote for each share of common stock held on the record date, and holders of the Class B common stock are entitled to ten votes for each share of Class B common stock held on the record date.

If a quorum is present at the Annual Meeting, the six candidates for director who receive the highest number of affirmative votes will be elected. A proxy marked to withhold authority for the election of one or more directors will not be voted with respect to the director or directors indicated. Stockholders are not entitled to cumulate votes for the election of directors.

The affirmative vote of shares representing a majority in voting power of the Company's common stock present in person or represented by proxy at the meeting and entitled to vote is necessary for approval of proxy Proposals 1, 2, 3, and 4. The affirmative vote of shares representing: (1) a majority in voting power of the Company's common stock entitled to vote thereon, voting as a single class; (2) a majority of the issued and outstanding shares of common stock, voting as a separate class; and (3) a majority of the issued and outstanding shares of Class B common stock, voting as a separate class, is necessary for approval of proxy Proposal 5. Proxy cards marked as abstentions on Proposal 1, 2, 3, 4, and 5 will not be voted and will have the effect of a negative vote. Please note that a broker or other nominee will not be permitted to vote your shares on Proposals 1 (election of directors); or 3 (approval of executive compensation); 4 (approval of amendment to the Long-Term Incentive Plan) and 5 (approval of the Amended and Restated Certificate of Incorporation); absent specific instructions from you. Broker non-votes on Proposals 1, 3, and 4 will have no effect on the proposals, but broker non-votes on Proposal 5 will have the effect of a negative vote. Because Proposal 2 is a routine proposal on which a broker or other nominee generally has discretionary authority to vote, we do not expect any broker non-votes on Proposal 2.

Revocability of Proxies

You may revoke your proxy at any time before it is voted (in the case of proxy cards) by giving notice to the Secretary of the Company or by executing and mailing a later-dated proxy. To revoke a proxy given or change your vote cast, by telephone or the Internet, you must do so by telephone or the Internet, respectively (following the directions on your proxy card), by 11:59 p.m. Eastern Standard Time on October 6, 2014.

Proxy Solicitation

We will bear the expense of soliciting proxies. Our officers and certain other employees, without additional remuneration, may also solicit proxies personally or by telephone, e-mail or other means.

PROPOSAL 1 - ELECTION OF DIRECTORS

At the Annual Meeting, stockholders will elect six directors to serve on our Board of Directors until the next annual meeting, or until their successors are elected and shall have qualified, subject to their earlier death, resignation or removal as permitted by law. Directors will be elected by a plurality of the votes cast at the meeting by the holders of shares represented in person or by proxy. Thus, assuming a quorum is present, the six persons receiving the greatest number of votes will be elected as directors and votes that are withheld will have no effect.

Our Board of Directors, acting through our Nominating Committee, is responsible for nominating a slate of directors that collectively have the complementary experience, qualifications, skills and attributes to guide the Company and function effectively as a Board.

The Nominating Committee has recommended Edward Richardson, Jacques Belin, James Benham, Kenneth Halverson, Scott Hodes and Paul Plante, as nominees for election at the Annual Meeting.

We believe that each of our nominees has professional experience in areas relevant to our strategy and operations. All of our directors have managerial experience and are accustomed to dealing with complex problems. We also believe each of our nominees has other attributes necessary to create an effective Board, including high personal and professional ethics, the willingness to engage management and each other in a constructive and collaborative fashion, the ability to devote significant time to serve on our Board and its committees, and a commitment to representing the long-term interests of all our stockholders. In addition to these attributes, in each individual's biography set forth below, we have highlighted specific experience, qualifications, and skills that led the Nominating Committee and the Board to conclude that each individual should be nominated to serve as a director of the Company.

Jacques Belin, age 63, served as Managing Director of Thales Components and Subsystems from 2000 to 2011. He retired in 2011. Prior to that he served in multiple capacities including Quality and Production Engineer, Operations Manager and Factories Manager. In addition, Mr. Belin was heavily involved at Thales in areas including strategy, sales and marketing, and administration. Mr. Belin holds an engineering degree from Ecole Centrale in Paris. His entire career has been devoted to the electron tube and subsystems business. We believe Mr. Belin's vast experience in the industry and knowledge of other advanced power generation, microwave, and detection technologies will be highly beneficial to the Company.

James Benham, age 69, has served as a Technical and Marketing Consultant to the Night Vision and Microwave Devices Industries since March, 2013. He retired in March, 2013 after 46 years in Defense Electronics. Prior to his retirement, Mr. Benham was the President of L-3 Communications Narda West Division in Folsom, CA from 2011 to 2013. For the previous 16 years, he was President of the Electron Devices Division of L-3 Communications. Mr. Benham received his BS in Chemistry from the State University of New York, and an MBA from Lynchburg College in Lynchburg, Virginia. He has also completed executive development programs at The Wharton School of the University of Pennsylvania, Harvard Business School and Stanford University. Additionally, Mr. Benham holds a patent in the night vision field. We believe Mr. Benham's 45+ years of technology development, engineering and management experience will be a major asset to the future of the Company.

Kenneth Halverson, age 63, is currently a consultant with Halverson Consulting, LLC since 2009. Previously, he was Senior Vice President from 1999 to 2009 with MedAssets, Inc., one of the largest Group Purchasing Organizations in the country. MedAssets provides service to thousands of hospitals helping them to reduce their overall expenses. Mr. Halverson was with Comdisco Inc. from 1984 to 1999, acting as Senior Vice President and President of the Healthcare Group, which leased imaging and clinical equipment as well as refurbished and remarketed imaging equipment. Mr. Halverson holds an MBA in Finance from Northwestern University's Kellogg School of Management and has held various executive positions with technology and healthcare companies throughout his career. We believe Mr. Halverson's extensive experience with healthcare companies as well as his background in technology and finance will enable him to provide valuable insight into the Company's strategy.

5

Scott Hodes, age 77, has been a director of the Company since 1983 and has served as our lead director since 2011. Mr. Hodes is Senior Counsel at Bryan Cave LLP where he was a partner from January 2004 to March 2009. From 1992 until 2004, Mr. Hodes was a partner with the law firm of McGuire Woods Ross & Hardies LLP and its predecessor firm Ross & Hardies LLP. Among his numerous leadership positions in business and community organizations, he is currently a director of the Better Government Association. We believe Mr. Hodes' qualifications to serve on our Board of Directors include his experience gained as legal counsel for numerous publicly traded and private companies as a practicing lawyer for more than 50 years.

Paul J. Plante, age 56, has provided business consulting services to the electronics industry since 2008 and has been a director since 2011. Prior to that time he was Vice President, Medical Industry Solutions, for the Kimball Electronics Group from February 2007 until May 2008, after the purchase by Kimball Electronics of Reptron Electronics, Inc. From February 2004 to February 2007, Mr. Plante was President and Chief Executive Officer and a member of the Board of Directors of Reptron Electronics, Inc., a publicly held provider of electronics manufacturing services with a focus on the medical industry. From 1994 until 2004 he served as the President and Chief Operating Officer of Reptron. Mr. Plante negotiated and led Reptron Electronics, Inc. through a successful pre-arranged Chapter 11 reorganization period that strengthened the company's balance sheet and liquidity with no significant loss of customers, employees, or suppliers. Prior to 1994, he was the Chief Financial Officer at Reptron and at K-Byte, Inc., a Michigan based software developer and electronics manufacturer. Mr. Plante has a degree in accounting and has been a licensed certified public accountant. We believe Mr. Plante is financially literate and qualifies as an "audit committee financial expert" under SEC rules. Mr. Plante's qualifications to serve on our Board of Directors include his significant experience in the electronics industry, his experience managing electronics manufacturing companies and his extensive financial knowledge. Mr. Plante also serves as a director of Sigmatron International.

Edward J. Richardson, age 72, has been a director of the Company since 1965. He is currently the Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of the Company. Mr. Richardson has been employed by the Company in various capacities since 1961. We believe Mr. Richardson's qualifications to serve on our Board of Directors include his position as our Chief Executive Officer for over 37 years and his unique ability to bring historic knowledge and continuity to the Board.

The Company knows of no reason why any of the nominees for director would be unable to serve. In the event, however, that any nominee named should, prior to the election, become unable to serve as a director, your proxy (unless designated to the contrary) will be voted for such other person or persons as the Board of Directors may recommend.

Our Board of Directors recommends that you vote "FOR" the election of each director nominee.

CORPORATE GOVERNANCE
Independence of Directors

The Board of Directors has determined that Messrs. Benham, Halverson, Hodes, and Plante, are independent as defined by NASDAQ listing standards. All members of the Audit, Compensation & Governance, and Nominating Committees, are independent in accordance with applicable laws and NASDAQ rules for members of such committees.

Board Leadership Structure

The Company has no fixed policy on whether the roles of Chairman of the Board and Chief Executive Officer should be separate or combined, with this decision being made based on the best interests of the Company and its stockholders considering the circumstances at the time. Currently, these roles are combined with Mr. Richardson serving as both the Chairman of the Board and the Chief Executive Officer. Mr. Richardson possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company and its business, and is responsible for the day-to-day operations of the Company. Therefore, the Board believes that Mr. Richardson is best positioned to efficiently develop agendas that ensure that the Board's time and attention are focused on the most critical matters and to execute strategic plans effectively, especially given the relatively small size of the Company's Board.

At the selection of the Board, Mr. Hodes, who is an independent director, has served as lead director since 2011. The lead director acts as a key liaison with the Chief Executive Officer, assists the Chairman of the Board in setting the Board agenda, chairs executive sessions of the Board, and communicates Board member feedback to the Chief Executive Officer. In addition, the Company's non-management directors meet in regularly scheduled executive sessions without any members of management present. The purpose of these executive sessions is to promote open and candid discussion among the non-management directors. The Board believes this approach appropriately and effectively complements the combined role of Chairman of the Board and Chief Executive Officer.

Board and Committee Information

During our last fiscal year, the Board of Directors held five meetings, of which two were teleconference meetings. Each director attended at least 75% of the aggregate number of such meetings and meetings of the committees on which he served. Although we have no formal policy about attendance at the Annual Meeting of Stockholders by our directors, it is encouraged. Last year, all directors attended the Annual Meeting.

During our last fiscal year, the Board of Directors had four standing committees: the Audit Committee, Compensation & Governance Committee, Executive Committee, and Nominating Committee.

During our last fiscal year, the members and chair of each committee were as follows:

Director	Audit	Compensation	Executive	Nominating
Kenneth Halverson	a	a		a
Scott Hodes	a	a	a	a(Chair)
Paul Plante	a(Chair)	a(Chair)		a
Edward Richardson			a(Chair)	

Executive Committee. The Executive Committee did not meet during the last fiscal year. This committee may exercise all authority of the Board of Directors in the management of the Company during the interval between meetings of the Board of Directors, except as otherwise provided in our by-laws or by applicable law.

Audit Committee. The Audit Committee held four meetings during the last fiscal year. This committee meets for the purpose of engaging and discharging the independent auditors (or recommending such actions), directing and supervising special investigations, reviewing with the independent auditors the plan and results of the auditing engagement, reviewing the scope and results of our procedures for internal auditing, approving each professional service provided by the independent auditors prior to the performance of such services, reviewing the independence of the independent auditors, considering the range of audit and non-audit fees for the independent auditors and reviewing the adequacy of the issuer's system of internal accounting controls and such other matters relating to our financial affairs and accounts as required by law or regulation or as it deems desirable or as the Board of Directors may assign to it. The Board of Directors has determined that the composition and functioning of the committee complies with the rules of the SEC and NASDAQ, including that each of its members is independent, as that term is defined in NASDAQ rules, and that one of its members, Mr. Plante, qualifies as an "Audit Committee Financial Expert," as that term is defined in SEC rules. The Audit Committee has adopted a written charter approved by the Board of Directors. A copy of the charter is available on our website at www.rell.com.

The Audit Committee's report begins on page 13.

Compensation & Governance Committee. The Compensation & Governance Committee (the "Compensation Committee") held ten meetings in the last fiscal year. The committee is comprised of three independent directors, and the Board of Directors has determined that the composition and functioning of this committee complies with the applicable NASDAQ and SEC requirements.

The committee's responsibilities include:

- Establishing, reviewing, and approving the base salary, non-equity incentive compensation, perquisites, and any other forms of non-equity compensation for our Chairman and Chief Executive Officer and for our executive officers;
- Reviewing and monitoring our incentive compensation and retirement plans and performing the duties imposed on the Committee by the terms of those plans;
- Administering our incentive compensation plans, including determining the employees to whom stock options and stock awards are granted, the number of shares subject to each option or award, and the date or dates upon which each option or award may be exercised;
- Developing and reviewing the Company's Corporate Governance Guidelines; and
- Performing other duties deemed appropriate by the Board of Directors.

The Compensation Committee chairman reports the committee's recommendations on executive compensation to the Board of Directors. Our Human Resources Department supports the committee and is delegated authority to fulfill certain administrative duties regarding compensation programs. The Compensation Committee has authority to retain, approve fees for, and terminate consultants as it deems necessary to assist in the fulfillment of its duties and responsibilities. The committee has adopted a written charter which is available on our website at www.rell.com.

The Compensation Committee report is on page 20.

Nominating Committee. The Nominating Committee met once during the last fiscal year. In considering whether to recommend any particular candidate for inclusion on the Board of Directors' slate of recommended director nominees, the Nominating Committee applies the criteria set forth in our corporate governance guidelines. These criteria include the candidate's integrity, business acumen, knowledge of our business and industry, experience, diligence, and the ability to act in the interests of all stockholders. The committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. The committee believes that the background and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge, and abilities that will best allow the Board of Directors to fulfill its responsibilities.

Management and the Directors submit candidates for nomination for election to the Board of Directors and for committee consideration. With respect to the election of director nominees at the Annual Meeting, the Nominating Committee recommended the Board nominate each of the six directors currently serving on the Board.

The Company does not have a policy regarding the consideration of diversity in identifying director nominees. The committee has not adopted a written charter. The Company is utilizing the "Controlled Company" exemption pursuant to Nasdaq Rule 5615(c) for purposes of the Nominating Committee Charter Requirement. The determination is based on the fact that Mr. Richardson has over 60% of the voting rights.

Stockholders may also submit names of candidates for consideration by the Nominating Committee, provided that such submissions must be received by the Board of Directors no later than the July 1st immediately preceding the annual meeting of stockholders. Stockholders may also nominate a candidate or candidates for election as a director at the annual meeting at which directors are elected.

Board Role in Risk Oversight

Non-management Directors meet regularly in executive sessions without management. Executive sessions are held during each regularly scheduled meeting and the Company's lead director presides over these sessions.

The Board and each of the Audit, Nominating, and Compensation Committees conduct annual self-evaluations, as contemplated by the Company's Governance Principles and the charters of such Board Committees.

While the Company's management is responsible for day-to-day management of various risks facing the Company, the Board of Directors is responsible for evaluating the Company's exposure to risk and to monitor the steps management has taken to assess and control risk. In addition, the Board has delegated oversight of certain categories of risk to the Audit and Compensation Committees. The Audit Committee oversees risks related to the integrity of the Company's financial statements and financial reporting, and the Compensation Committee oversees risks related to the Company's compensation plans and practices. In performing their oversight responsibilities, the Board receives periodic reports from the Chief Executive Officer and other members of senior management on areas of risk facing the Company. The Audit and Compensation Committees report to the Board regularly on matters relating to the specific areas of risk the committees oversee.

Compensation of Directors

Non-employee directors receive a quarterly retainer of $4,500 and meeting fees of $1,000 for each Audit Committee meeting and $750 for other Board and committee meetings. The Chairman of the Audit Committee receives an additional quarterly retainer of $1,500.

Upon joining the Board, new directors receive a grant of 25,000 stock options that vest over five years. After the five-year period, directors receive an annual grant of 5,000 stock options that are fully vested on the date of grant.

Employee directors receive no additional compensation related to their service on our Board of Directors.

COMPENSATION OF DIRECTORS
Director Compensation Table

Name of Director	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)(2)	All Other Compensation ($)	Total ($)
Edward J. Richardson	—	—	—	—
Jacques Belin	15,000	14,693	—	29,693
James Benham	15,000	14,693	—	29,693
Kenneth Halverson	19,250	14,693	—	33,943
Scott Hodes	31,250	17,900	—	49,150
Paul Plante	37,750	31,212	—	68,962

(1) Amounts represent the dollar amount recognized for financial statement reporting purposes with respect to fiscal 2014 for the fair value of stock options granted to each director in fiscal 2014, in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 718, and do not correspond to the actual value that will be recognized by each director. For the relevant assumptions used in determining the fair value of stock option awards, refer to Note 4, Significant Accounting Policies - Share-Based Compensation, in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014, filed with the SEC on July 25, 2014.

(2)

The aggregate number of options granted in fiscal 2014 to directors was 80,000 and all were outstanding at fiscal year end.

EXECUTIVE OFFICERS

The following are our executive officers as of August 19, 2014:

Name	Age	Position
Edward J. Richardson	72	Chairman, Chief Executive Officer, Chief Operating Officer and President
Wendy S. Diddell	49	Executive Vice President, Corporate Development & General Manager, Canvys
Kathleen S. Dvorak	57	Executive Vice President, Chief Financial Officer and Chief Strategy Officer
James M. Dudek, Jr.	42	Corporate Controller and Chief Accounting Officer
Kathleen M. McNally	54	Senior Vice President, Global Supply Chain

Mr. Richardson has been employed by the Company since 1961, holding several positions during this time. He was Chairman of the Board, Chief Executive Officer and President from September 1989 until November 1996. Since that time, Mr. Richardson has continued to hold the offices of Chairman of the Board and Chief Executive Officer. In April 2006, he also became President and Chief Operating Officer, and in June 2009 he also became the General Manager of the Electron Device Group.

Ms. Diddell has been Executive Vice President, Corporate Development since June 2007. In June 2009, she also assumed the role of General Manager of our Canvys business. Prior to June 2007, Ms. Diddell was Executive Vice President and General Manager of our Security Systems Division since February 2006. Prior to that, Ms. Diddell was employed as a management consultant for the Security Systems Division since July 2003 and Vice President and General Manager of the Security Systems Division since June 2004.

Ms. Dvorak has been Executive Vice President, Chief Financial Officer and Chief Strategy Officer since November 2007. Ms. Dvorak has since assumed responsibility for Information Systems, Legal and Human Resources. Prior to joining us, Ms. Dvorak was employed by United Stationers Inc. as Senior Vice President and Chief Financial Officer from 2001 to 2007, Senior Vice President Investor Relations and Financial Administration from 2000 to 2001.

Mr. Dudek has been Controller and Chief Accounting Officer since December 2007. Prior to that, Mr. Dudek was Senior Director, Financial Reporting with Career Education Corporation from September 2006 to November 2007 and Director of Accounting from February 2004 to August 2006. Prior to that, Mr. Dudek was with ConAgra Refrigerated Foods Group from September 1999 to February 2004, serving as Retail Sales Controller from May 2002 to February 2004, and prior to that he held various positions within the Corporate Financial Planning department from September 1999 to September 2002.

Ms. McNally has been Senior Vice President, Global Supply Chain, since 2009. Previously she served as Senior Vice President of Marketing Operations and Customer Support from 2000 to 2009 and as Vice President and Corporate Officer of Marketing Operations from 1989 until 2000. Prior to that, she held various positions within the marketing department since joining the Company in 1979.

Executive officers are elected annually by the Board of Directors at the time of the annual stockholders meeting and serve until their earlier resignation, death or removal.

PRINCIPAL STOCKHOLDERS

The following table shows the number of shares of common stock and Class B common stock beneficially owned by (1) each director, (2) each of our Named Executive Officers, (3) all directors and executive officers of the Company as a group, and (4) each other person who is known by us to beneficially own more than 5% of our common shares. Percent of Class and Percent of Total Voting Rights are based on 13,996,817 shares outstanding as of August 14, 2014.

	Shares of Common Stock (1)		Percent of Class	Shares of Class B Common Stock (2)	Percent of Class B Common Stock	Percent of Total Voting Rights
Directors:						
Jacques Belin	5,000	(3)	*	—	*	*
James Benham	5,000	(4)	*	—	*	*
Kenneth Halverson	5,000	(5)	*	—	*	*
Scott Hodes	103,424	(6)	*	3,712	*	*
Paul J. Plante	15,000	(7)	*	—	*	*
Edward J. Richardson	2,212,966	(8)	15.8%	2,162,966	98.7%	64.2%
Non-Director Named Executive Officers:						
Wendy S. Diddell	58,000	(9)	*	—	*	*
Kathleen S. Dvorak	83,000	(10)	*	—	*	*
Kathleen M. McNally	48,656	(11)	*	—	*	*
James M. Dudek, Jr.	13,603	(12)	*	—	*	*
All Executive Officers and Directors as a Group (10 persons)	2,549,649	(13)	18.2%	2,166,678	98.9%	64.5%
Other Beneficial Owners:						
Gates Capital Management, Inc.	2,852,186	(14)	20.4%	—	—	8.5%
RGM Capital	1,165,131	(15)	8.3%	—	—	3.5%
Dimensional Fund Advisors LP	1,162,355	(16)	8.3%	—	—	3.4%
Royce & Associates LLC	1,000,649	(17)	7.1%	—	—	3.0%

* Less than 1%.

(1) Except as noted, beneficial ownership of each of the shares listed is comprised of both sole investment and sole voting power, or investment power and voting power that is shared with the spouse of the director or officer.

(2) Common stock is entitled to one vote per share, and Class B common stock is entitled to ten votes per share.

(3) Includes 5,000 shares of common stock to which Mr. Belin holds stock options exercisable within 60 days

(4) Includes 5,000 shares of common stock to which Mr. Benham holds stock options exercisable within 60 days

(5) Includes 5,000 shares of common stock to which Mr. Halverson holds stock options exercisable within 60 days

(6) Includes 3,712 shares of common stock which would be issued upon conversion of Mr. Hodes' Class B common stock and 50,000 shares of common stock to which Mr. Hodes holds stock options exercisable within 60 days.

(7) Includes 15,000 shares of common stock to which Mr. Plante holds stock options exercisable within 60 days.

(8) Includes 2,162,966 shares of common stock which would be issued upon conversion of Mr. Richardson's Class B common stock and 50,000 shares of common stock to which Mr. Richardson holds stock options exercisable within 60 days. Mr. Richardson has pledged 491,000 of his shares of Class B common stock as security to JP Morgan Chase Bank to secure a personal loan. The full Board evaluated the risk of significant pledging of stock. As this is a small percentage of his total holdings, the Board did not deem this to be material or represent a risk to the Company.

(9) Includes 58,000 shares of common stock to which Ms. Diddell holds stock options exercisable within 60 days.

(10) Includes 73,000 shares of common stock to which Ms. Dvorak holds stock options exercisable within 60 days.

(11) Includes 41,500 shares of common stock to which Ms. McNally holds stock options exercisable within 60 days.

(12) Includes 12,600 shares of common stock to which Mr. Dudek holds stock options exercisable within 60 days.

(13) Includes 2,162,966 shares of common stock issuable on conversion of Class B common stock and 365,100 shares of common stock issuable upon options exercisable within 60 days.

(14)

Information disclosed in this table is as of June 30, 2014, and was obtained from a Form 13F filed with the SEC. The address for Gates Capital Management, Inc. is 1177 Avenue of the Americas, 46th Floor, New York, NY 10036.

(15) Information disclosed in this table is as of June 30, 2014, and was obtained from a Form 13F filed with the SEC. The address for RGM Capital is 9010 Strada Stell Court, Suite 105, Naples, FL 34109.

(16) Information disclosed in this table is as of June 30, 2014, and was obtained from a Form 13F filed with the SEC. The address for Dimensional Fund Advisors LP is 6300 Bee Cave Road, Building One, Austin, Texas, 78746.

(17) Information disclosed in this table is as of June 30, 2014 and was obtained from a Form 13F filed with the SEC. The address for Royce & Associates LLC is 745 Fifth Avenue, New York, NY, 10151.

PROPOSAL 2 - RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee expects to engage Ernst & Young LLP to serve as our independent registered public accounting firm for the fiscal year ending May 30, 2015.

Although the Audit Committee is not required to do so, it is submitting its expected selection of our independent registered public accounting firm for ratification at the Annual Meeting in order to ascertain the views of our stockholders. The Audit Committee will not be bound by the vote of the stockholders; however, if the proposed selection is not ratified, the Audit Committee would reconsider its selection.

One or more representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. The representatives will have an opportunity to make a statement if they desire and will be available to respond to questions from stockholders.

Our Board of Directors recommends that you vote “FOR” the selection of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2015.

AUDIT MATTERS
Audit Committee Report

The Audit Committee of the Board of Directors is comprised of directors that are “independent” as defined under the current NASDAQ listing standards and Rule 10A-3 under the Exchange Act. The Audit Committee has a written charter that has been approved by the Board of Directors. A copy of the charter is available on our website at www.rell.com.

The Audit Committee’s members are not professionally engaged in the practice of accounting or auditing, and they necessarily rely on the work and assurances of the Company’s management and the independent registered public accounting firm. Management has the primary responsibility for the financial statements and the reporting process, including the process of internal control over financial reporting. The independent registered public accounting firm of Ernst & Young LLP (“EY”) is responsible for performing an independent audit of the Company’s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”) and expressing an opinion on the conformity of such audited financial statements with United States generally accepted accounting principles. In addition, the Company’s independent registered public accounting firm is responsible for auditing as well as expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. The Audit Committee has reviewed and discussed with management the audited financial statements of the Company for the fiscal year ended May 31, 2014 (the “Audited Financial Statements”). In addition, the Audit Committee has discussed with EY the matters required to be discussed by PCAOB Auditing Standard No. 16.

The Audit Committee has received the written disclosures and the letter from EY required by applicable requirements of the Public Company Accounting Oversight Board, regarding communications concerning independence and has discussed with EY its independence from the Company. The Audit Committee further considered whether the provision of non-audit related services by EY to the Company is compatible with maintaining the independence of EY with the Company. The Audit Committee has also discussed with management of the Company and EY such other matters and received assurances from them as it deemed appropriate.

The Company’s internal auditors and EY discussed with the Audit Committee the overall scope and plans for their respective audits. The Audit Committee meets regularly with the internal auditors and EY, with and without management present, to discuss the results of their reviews, the evaluation of the Company’s internal control over financial reporting, and the overall quality of the Company’s accounting.

Based on the above review and discussions, the Audit Committee recommended to the Board of Directors, and the Board approved, that the Audited Financial Statements of the Company be included in the Annual Report on Form 10-K for the fiscal year ended May 31, 2014, for filing with the SEC.

Audit Committee of the Board of Directors

Paul Plante, Chairman
Kenneth Halverson
Scott Hodes

Independent Auditor's Fees

The following table sets forth the aggregate fees billed for each of the last two years for professional services rendered by our principal registered public accounting firm for the respective years.

	2014	2013
Audit Fees (1)	$869,000	$843,177
Audit-Related Fees	—	—
Tax Fees(2)	—	75,000
All Other Fees	—	—
Total	$869,000	$918,177

(1) Audit Fees were for professional services rendered for the audits of our annual financial statements included in our Forms 10-K for the fiscal years ended May 31, 2014 and June 1, 2013. The reviews of the financial statements included in our quarterly reports on Forms 10-Q during such fiscal years, statutory audits for certain of our non-U.S. subsidiaries, and audit of our internal controls over financial reporting.

(2) Tax Fees of $75,000 in 2013 were for tax consulting services.

Audit Fees are reviewed and specifically approved by the Audit Committee on an annual basis. The Audit Committee has established formal policies and procedures for the pre-approval of audit-related, tax and other fees. These procedures include a review and pre-approval of an annual budget covering the nature of an amount to be expended for auditor services by specific categories of services to be provided. The Audit Committee pre-approved all Tax Fees shown above pursuant to its established policies and procedures.

RELATED PARTY TRANSACTIONS

Pursuant to our Code of Conduct, related party transactions involving directors, executive officers or their immediate family members must be reviewed and approved by our Board of Directors prior to the Company entering into such transactions. Our Code of Conduct generally describes a prohibited related party transaction as one that would adversely influence an employee or director in the performance of his or her duties to the Company or one that is inconsistent with or opposed to the best interests of the Company. The Code of Conduct contains many standards and examples of potentially prohibited related party transactions, but the Board of Directors retains the discretion to determine whether each potential transaction is consistent with the standards described in the Code of Conduct. Other than the broad standards outlined in the Code of Conduct, we do not have written standards for reviewing and evaluating potential related party transactions. However, Directors may consider any factors that they deem consistent with their fiduciary duties to stockholders.

During fiscal 2014, there were no related party transactions between the Company and our directors, executive officers, or their immediate family members.

COMPENSATION DISCUSSION AND ANALYSIS

We believe that the performance and contribution of our executive officers are critical to the success of the Company. To attract, retain and motivate our executives to accomplish our business strategies, we have implemented executive compensation programs providing executives with the opportunity to earn compensation that reward strong performance and creation of stockholder value.

Objectives

The fundamental objectives of our executive compensation programs are to:

- Attract and retain highly qualified executives by providing total compensation that is internally equitable and externally competitive;
- Motivate executives by providing performance-based incentives to achieve our annual financial goals and long-term business strategies; and
- Align the interests of executives with those of stockholders by rewarding our executives for individual and corporate performance measured against our goals and plans and by granting stock options and other equity-based compensation.

To achieve our compensation objectives, we use both annual cash compensation, which includes a base salary and an annual cash incentive plan, and time-based equity awards. When making compensation decisions, the various elements of compensation are evaluated together, and the level of compensation opportunity provided for one element may impact the level and design of other elements. We attempt to balance the total executive compensation program to promote the achievement of both current and long-term performance goals.

The Compensation Committee reviews and analyzes our executive compensation policies, programs, and practices regularly in light of these objectives and our financial performance to ensure that our compensation practices are appropriately configured to achieve these objectives.

Say on Pay Feedback from Stockholders

A primary focus of our Compensation Committee is whether the Company's executive compensation program serves the best interests of the Company's stockholders. As part of its ongoing review of our executive compensation program, the Compensation Committee considered the affirmative stockholder advisory vote on executive compensation ("say on pay") at the Company's 2013 Annual Meeting, where a significant majority of our stockholders approved the compensation program described in the proxy statement for that meeting. The Compensation Committee determined that the Company's executive compensation philosophy, objectives and elements continue to be appropriate. In 2014, the Company aligned its CEO and executive management team on a single incentive plan with four defined metrics.

Named Executive Officers

For fiscal 2014, our Named Executive Officers were as follows:

Executive Name	Title
Edward J. Richardson	Chairman, Chief Executive Officer and President
Wendy S. Diddell	Executive Vice President, Corporate Development & General Manager, Canvys
Kathleen S. Dvorak	Executive Vice President, Chief Financial Officer, and Chief Strategy Officer
James M. Dudek, Jr.	Corporate Controller and Chief Accounting Officer
Kathleen M. McNally	Senior Vice President, Global Supply Chain

Establishing Executive Compensation

Role of the Compensation Committee. The Compensation Committee is responsible for discharging the responsibilities of the Board of Directors with respect to executive compensation. Its role is to review and approve the Company's compensation programs, policies and practices with respect to its executive officers. The Compensation Committee assists the Board in evaluating the performance of the Chief Executive Officer, which is generally conducted during executive sessions of the Board. The committee also reviews the Chief Executive Officer's evaluation of the performance of the other executive officers in order to determine the base compensation and annual cash bonus opportunities for the executive officers.

The committee also administers the Company's incentive compensation plans and, in such capacity, determines equity compensation for its executive officers in the form of awards of stock, restricted stock, and stock options to support the objectives of its compensation programs. The Compensation Committee did not retain a compensation consultant during fiscal 2014.

Role of Management. The Chief Executive Officer (CEO) assists the Compensation Committee in reaching compensation decisions by developing recommended compensation for the executive officers. The CEO also develops performance objectives for each executive officer. The CEO meets with each executive officer formally on an annual basis to review past performance and to discuss performance objectives for the following year.

The Company’s Chief Financial Officer (CFO) also serves as its Chief Human Resources Officer. In connection with the structure and amount of the Company’s executive officer compensation, the CFO advises the CEO regarding the Company’s financial performance and, in her capacity as Chief Human Resources Officer, the compensation for its non-executive officer employees. The Compensation Committee consults with the CEO to ensure that executive officer compensation will achieve the Company’s annual financial goals and long-term business plans.

During fiscal 2014, the committee did not analyze executive compensation at any group of peer companies as a 3% merit increase was given to all Named Executive Officers except for Ms. Diddell, who received an increase of 19.3% reflecting an internal equity adjustment.

Role of Employment Agreements. The Company considers employment agreements to be an important part of recruiting and retaining qualified executive officers. All of the Named Executive Officers, other than Mr. Richardson and Ms. McNally, have entered into employment agreements. The employment agreements with each of the Named Executive Officers establish initial base compensation and ongoing annual cash bonus opportunity as a percentage of base compensation. These employment agreements are described in further detail on page 25. Due to his substantial equity stake in the Company, the Compensation Committee does not believe that an employment agreement with Mr. Richardson is necessary to achieve the retention goals served by employment agreements with most of the other Named Executive Officers.

Role of Compensation Benchmarking. One of the fundamental objectives of the Company's compensation program is that total compensation be externally competitive. To achieve this objective, from time to time the Company obtains data to compare its executive compensation against executive compensation at other companies. In fiscal years when such data is not obtained, the CEO and the Compensation Committee rely on publicly available information related to competitive compensation, internal equity, and general market trends in executive compensation.

Generally, the Compensation Committee uses data from public sources to determine whether the market for executive compensation has changed significantly. If the Compensation Committee believed the market had changed significantly, then it would instruct the CEO to commission a study of executive compensation at certain comparable companies for purposes of evaluating the Company's compensation arrangements. If the Compensation Committee does not believe the market has changed significantly, then the Committee recommends a fixed percentage merit increase for executives. The Committee's evaluation of competitive compensation and market trends is based on publicly available information. The Committee generally does not independently analyze executive compensation at any group of peer companies except when recruiting for new executives.

Role of Compensation Consultants. The Compensation Committee has the authority under its charter to retain compensation consultants to assist in the evaluation of executive officer compensation and benefits and approve the consultants' fees and other retention terms. However, the Company and the Compensation Committee has not historically engaged compensation consultants in determining Named Executive Officer compensation. Instead, the Compensation Committee utilizes publicly available information and informal surveys from professional human resource organizations to determine executive compensation.

Elements of Executive Compensation

Most of the Company's compensation elements fulfill one or more of its compensation objectives. The elements of total compensation for its Named Executive Officers are:

- base compensation;
- annual cash bonus compensation;
- equity-based compensation;
- profit sharing/401(k) plan; and
- perquisites.

Base Compensation. The Compensation Committee alone determines the CEO's base compensation. This amount was equal to the budgeted increase in compensation for U.S. employees and was based on generally available market data with respect to annual wage increases in the United States. In fiscal 2012, the Committee approved increases for Mr.

Richardson and the other executive officers of 3.0%. Based upon this approval, Mr. Richardson's base compensation in 2012 was $573,169. In fiscal 2013, the Committee felt that in light of the challenges facing the business and the highly demanding nature of pursuing and evaluating global acquisition opportunities that it would be appropriate to increase the base compensation of Mr. Richardson by $100,000 effective October 15, 2012. This decision was made based on the fact that equity compensation is typically a large component of total compensation for most CEOs. In the case of Mr. Richardson, the Committee felt that additional equity was not warranted to align Mr. Richardson's interests with those of the other stockholders. As a result, they determined that adjusting Mr. Richardson's base compensation was more appropriate. In fiscal 2013, the Compensation Committee approved a 3% increase for all executive officers. In fiscal 2014, the Compensation

Committee approved a 3% increase in base compensation for all employees including Mr. Richardson and the other executive officers except for Ms. Diddell whose base compensation was increased by 19.3% on December 18, 2013. Based on internal equity and the travel requirements of Ms. Diddell’s position, her base compensation was increased to $335,000 in 2014. Mr. Richardson’s base compensation at the end of fiscal 2014 was $693,364.

The amount of base compensation for each of the other Named Executive Officers is initially set upon the commencement of his or her employment as an executive officer with the Company and is stated in the Named Executive Officer’s employment agreement if the Company has an employment agreement with the Named Executive Officer. This initial amount is established with a goal of attracting talented executive officers to the Company and is recommended by the CEO and approved by the Compensation Committee. Thereafter, each of the Named Executive Officers' base compensation is reviewed annually by the CEO and the Compensation Committee.

In determining appropriate levels of base compensation for executive officers, the CEO considers the executive officer’s individual performance, the financial performance of the Company, and a base compensation that is internally equitable and externally competitive. The Compensation Committee annually reviews the base compensation of the executive officers set by the CEO. The Compensation Committee reports its findings and opinions with respect to base compensation to the Board for further discussion so that the Board may provide feedback to the CEO regarding its perception of how well the base compensation of the executive officers achieves the Company’s compensation objectives.

Annual Cash Bonus Compensation. During fiscal 2012, the Compensation Committee recommended and the Board and stockholders approved a payment under the Edward J. Richardson Incentive Compensation Plan.

Under the plan, Mr. Richardson was eligible for an annual cash bonus equal to 2% of the Company’s annual net income after taxes each fiscal year, subject to the Compensation Committee’s right, in its sole and exclusive discretion, to reduce the bonus, including a reduction to zero. This plan formalized a historical annual cash bonus arrangement for the CEO established by the Board of Directors in 1983. In fiscal 2012, Mr. Richardson earned a cash bonus of $172,080 based upon a calculation of 2% of the Company’s annual net income after tax.

In October 2012, the Compensation Committee recommended and the Board and stockholders approved the Amended and Restated Edward J. Richardson Incentive Compensation Plan whereby Mr. Richardson would be eligible to receive bonus compensation based on the greater of 2% of annual net income after tax or a bonus based upon achieving pre-established financial objectives that support the Company’s profitability. Mr. Richardson’s incentive payment under the 2% plan for FY13 would have been approximately $25,000.

Pursuant to the terms of the Edward J. Richardson Incentive Compensation Plan, Mr. Richardson is entitled to the greater of 2% of annual net income or a bonus of up to 70% of base compensation based upon levels of achievement of his goals. The Compensation Committee evaluated Mr. Richardson’s performance relative to measurement criteria for fiscal 2013 based on the level of achievement of the established goals.

Based upon the assessment of his goals, the Committee determined that Mr. Richardson earned a bonus payment for Fiscal 2013 of $167,805. The basis for the payout was creating long-term shareholder value as measured by the Five-year Cumulative Total Return Graph included in the Company’s 10-K for Fiscal 2013 and the completion of an acquisition that was accretive to earnings. The targets for the operating expense ratio and working capital efficiency goals were not met.

The Company relies on performance-based cash bonuses under the Company’s annual incentive compensation plan to reward Company employees, including executive officers, for achievement of specific financial goals related to our annual operating plan and budget. The Compensation Committee believes tying annual cash bonus compensation for executive officers primarily to financial metrics provides the appropriate incentive to the executive officers to contribute to our financial success. For the Named Executive Officers, the annual incentive plans also included a substantial portion related to achievement of personal performance goals in fiscal 2013 and for the first quarter of fiscal 2014.

On an annual basis, management presents specific recommendations to the Compensation Committee regarding the financial metrics and other components to be included in the annual incentive plan, which are those metrics and components that management believes will provide the best incentive to achieve desired operating results. These recommendations were developed in light of achievement under prior plans and through consultation with the CEO. The Compensation Committee considers management's recommendation and then determines the final components and structure of our incentive compensation plans based on the objectives of our compensation program.

The target bonus opportunity for Mr. Richardson is equal to 70% of his base compensation, which excludes car allowance, bonus, equity award and perquisites. Target bonus opportunities for Ms. Diddell, Ms. Dvorak, and Ms. McNally are equal to 50% of their base compensation, which excludes car allowance, bonus, equity awards and perquisites. The target bonus opportunity for Mr. Dudek is 35% of his base compensation, which excludes car allowance, bonus, equity awards and perquisites. The target bonus percentages were initially set by the Compensation Committee with a goal of attracting talented executive officers to the Company, and are stated in the Named Executive Officers' employment agreement, if we have an employment agreement with the named executive officer. If we do not have an employment agreement with the named executive officer, then the target bonus percentage is recommended by the CEO and approved by the Compensation Committee on an annual basis.

For the first quarter of fiscal 2014, the Named Executive Officers except for Mr. Richardson and Ms. Diddell, were eligible for cash bonuses based on income from continuing operations, operating income, working capital efficiency and personal performance. For the last three quarters, the Compensation Committee placed the Named Executive Officers on the Executive Incentive Plan which included Mr. Richardson and Ms. Diddell. Mr. Richardson (for all of FY14) and the Named Executive Officers (for Q2 through Q4 of FY14) were eligible for annual cash bonuses based on the following metrics:

Fiscal 2014 Incentive Metrics

	Richardson		Diddell		Dvorak		Dudek		McNally	
Acquisitions	30.0	%	30.0	%	30.0	%	30.0	%	30.0	%
Continue to Drive Long-Term Shareholder Value	30.0	%	30.0	%	30.0	%	30.0	%	30.0	%
Drive Companywide Process Improvement Initiatives	20.0	%	20.0	%	20.0	%	20.0	%	20.0	%
Generate Positive Cash Flow	20.0	%	20.0	%	20.0	%	20.0	%	20.0	%
Total	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

Targets for each of the financial metrics are established by the Compensation Committee for each fiscal year and correspond with the annual financial plan for the Company approved by the Board of Directors.

Payments on the financial metrics incentive targets are capped at 100% achievement for each of the Company's first three fiscal quarters and are capped at 150% achievement for the final annual calculation.

The table below sets forth the bonus targets and percentage achievement for each of the Named Executive Officers for fiscal 2014.

Fiscal 2014 Incentive Actual Performance

	Richardson[1]	Diddell	Dvorak	Dudek	McNally
Personal Performance (Q1)					
% Achievement		100.00 %	94.66 %	94.66 %	94.66 %
Eligible		$34,956	49,432	18,290	24,749
Earned		$34,956	46,793	17,314	23,428
Acquisitions (Q2 - Q4) [2]					
% Achievement	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Eligible	$141,365	31,461	44,488	16,461	22,274
Earned	$141,365	31,461	44,488	16,461	22,274
Shareholder Value (Q2 - Q4) [3]					
% Achievement	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Eligible	$141,365	31,461	44,488	16,461	22,274
Earned	$141,365	31,461	44,488	16,461	22,274
Process Improvement (Q2 - Q4) [4]					
% Achievement	86.70 %	86.70 %	86.70 %	86.70 %	86.70 %
Eligible	$94,244	20,974	29,659	10,974	14,849
Earned	$81,709	18,184	25,714	9,514	12,874
Positive Cash Flows					
% Achievement	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Eligible	$94,244	20,974	29,659	10,974	14,849
Earned	$0	$0	$0	$0	$0
Total Eligible	$471,218	$139,826	$197,726	$73,160	$98,995
Total Earned	$364,439	$116,062	$161,483	$59,750	$80,850
% Average Achievement	77.34 %	83.00 %	81.67 %	81.67 %	81.67 %

[1] Mr. Richardson's incentive is based on the greater of 2% of net income or the payout earned from the annual Executive Incentive Plan which he participated in for all four quarters.
[2] Targets for acquisitions were specific to each potential acquisition.
[3] Targets for shareholder value were based on the Five-year Cumulative Total Return Graph filed in the Company's Annual Report on Form 10-K on July 25, 2014.
[4] Targets for process improvement were specific to each pre-approved initiative.

Clawback Provision. The Compensation Committee approved a clawback policy allowing the Committee to clawback bonuses for the Named Executive Officers in the event of fraud or illegal conduct. In addition, if the Company was required to prepare an accounting restatement due to material non-compliance with financial reporting requirements, the Committee has the right to recover incentive based compensation that was awarded based on the erroneous data.

Equity Based Compensation. Our 2011 Long-term Incentive Compensation Plan provides for grants of equity awards to our executive officers to encourage them to focus on long-term Company performance. The plan is administered by the Compensation Committee of the Board.

Consistent with our policy of providing a total compensation package that includes equity based components, the Compensation Committee makes periodic decisions (normally on an annual basis) regarding appropriate equity grants based on the Company’s achievement of its financial and strategic goals and the participants’ individual performance, based on recommendations from our CEO. The Compensation Committee has the discretion to determine whether equity awards will be granted to the Named Executive Officers and, if so, the number of shares subject to each award.

The CEO submits to the Compensation Committee, on at least an annual basis, his recommendation for the amount and type of equity award to grant to each Named Executive Officer other than himself. Annual equity recommendations and grants are typically made after the completion of our first quarter and are based on the Company's and the grant recipients' performance in the prior fiscal year. In determining whether to approve or adjust the recommended grants, the Compensation Committee considers our financial performance in the prior fiscal year, the executive's level of responsibility, and historical award data. The Compensation Committee does not assign a specific weight to any of these factors, but rather these factors are evaluated on an aggregate and qualitative basis.

When awarded, stock options are granted at the fair market value of our common stock on the date of the grant. Under the terms of the 2001 and 2011 Plans, the fair market value of the stock is the closing sale price of the stock on the date of grant. Our stock options, therefore, have value only if the stock price appreciates following the date the options are granted. Stock option awards to the Named Executive Officers under the 2001 and 2011 Plans vest over a five-year period with 20% of the stock option grant becoming exercisable 12 months after the date of grant. The remaining options vest and are exercisable in 20% increments over the next four years. The Compensation Committee believes that this vesting schedule encourages long-term executive officer retention.

In fiscal 2014, each of the Named Executive Officers, other than Mr. Richardson, received a grant of options to purchase the Company's common stock under the Incentive Compensation Plan under the 2011 Long-term Incentive Compensation Plan, as reported in the table for Grants of Plan-Based Awards on page 22. With respect to these awards, the CEO recommended a number of option shares to the Named Executive Officers based upon the historical allocation of such option shares by position with the Company.

Profit Sharing/401(k) Plan. We offer retirement benefits to our employees, including all of the Named Executive Officers, through a tax-qualified Profit Sharing/401(k) Plan, which is a defined contribution plan designed to accumulate retirement funds for participating employees through individual and Company contributions. Participants are provided the opportunity to make salary reduction contributions to the plan on a pre-tax basis. In general, we match 50% of the first 4% of salary and bonus contributed by participants.

Perquisites. We offer very few perquisites to our Named Executive Officers, which primarily includes a car allowance. The perquisites provided to each Named Executive Officer in fiscal 2014 totaled less than $15,000 and less than 10% of total annual salary and bonus reported for each Named Executive Officer. We believe that these perquisites are an important element of compensation for attracting and retaining high caliber executive officers, but that perquisites are not the most effective means of achieving our compensation objectives.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed the foregoing Compensation Discussion and Analysis (the "CD&A") for the year ended May 31, 2014, and discussed the CD&A with management. In reliance on the reviews and discussions referred to above, the Compensation Committee has recommended to the Board that the CD&A be included in the proxy statement for the year ended May 31, 2014, for filing with the Securities and Exchange Commission.

Compensation Committee of the Board of Directors
Paul Plante (Chairman)
Ken Halverson
Scott Hodes

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The functions and members of the Compensation Committee are set forth above under "Corporate Governance - Board and Committee Information - Compensation Committee." All Committee members are independent and none of the Committee members has served as an officer or employee of the Company or a subsidiary of the Company. None of our executive officers currently serves, or served during fiscal 2014, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of our Board or Compensation Committee.

COMPENSATION OF EXECUTIVE OFFICERS
Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Restricted Stock Awards ($)	Option Awards ($)[(1)]	Non-Equity Incentive Plan Compensation ($)[(2)]	All Other Compensation ($)[(3)]	Total ($)
Edward J. Richardson	2014	685,985	—	28,192	364,439	23,858	1,102,474
Chairman of the Board, President,	2013	636,631	—	28,192	167,805	25,217	857,845
and Chief Executive Officer	2012	559,364	—	28,300	172,080	29,988	789,732
Wendy S. Diddell	2014	306,809	—	81,988	116,062	17,183	522,042
Executive Vice President, Corporate	2013	276,986	—	64,999	135,752	17,191	494,928
Development	2012	268,919	—	61,104	131,798	16,991	478,812
Kathleen S. Dvorak	2014	398,416	—	64,781	161,483	17,682	642,362
Executive Vice President, Chief Financial	2013	386,812	—	49,324	130,050	17,732	583,918
Officer, and Chief Strategy Officer	2012	375,545	—	41,390	161,866	17,864	596,665
Kathleen M. McNally	2014	197,986	—	33,093	80,850	17,760	329,689
Senior Vice President, Marketing	2013	192,220	—	28,404	65,111	15,824	301,559
Operations and Customer Support	2012	186,621	—	28,490	81,040	15,152	311,303
James M. Dudek, Jr.	2014	209,868	—	31,250	59,750	17,266	318,134
Controller and	2013	203,755	—	25,015	48,120	17,125	294,015
Chief Accounting Officer	2012	200,094	—	22,303	59,892	17,080	299,369

(1) Amounts in this column represent the dollar amount recognized as expense for the fiscal year for financial statement reporting purposes for the fair value of stock options granted to each named executive officer in accordance with ASC 718. The amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The amounts reflect our accounting expenses for these awards and do not correspond to the actual value that will be recognized by each named executive officer. For the relevant assumptions used in determining the fair value of stock option awards, refer to Note 3, Significant Accounting Policies - Share-Based Compensation, in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed with the SEC on July 25, 2014.

(2) Amounts in this column represent annual incentive payments earned for fiscal 2014, 2013, and 2012 based on pre-set incentive goals established at the beginning of each fiscal year and tied to the Company's financial goals and personal performance measures. Additional details regarding annual incentive payments made in 2014 are set forth in the Compensation Discussion and Analysis under "Annual Cash Bonus Compensation," beginning on page 17.

(3) All Other Compensation for each named executive officer includes: (a) $12,000 annually for car allowance; (b) matching contributions made to the 401(k) plan in fiscal 2012; and (c) imputed income for each Named Executive Officer's group term life insurance in excess of a $50,000 death benefit. For Ms. Diddell, All Other Compensation also includes: (i) $56,153 accrued, but not paid, in fiscal 2014 and $8,263 accrued, but not paid, in fiscal 2013 and $8,023 accrued, but not paid, in fiscal 2012, in connection with termination payments payable to her. Ms. Diddell's termination payments are discussed below under the heading "Employment Agreements." The amounts accrued in fiscal 2014 represent an additional accrual due to an increase in her base salary.

Grants of Plan-Based Awards for Fiscal 2014

Name	Estimated Future Payments Incentive Plan Awards Threshold($)	Target ($)	Maximum($)	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)(1)	Grant Date Fair Value of Option Awards ($)(2)
Edward J. Richardson	208,009	346,682	520,023	N/A	—	—	—
Wendy S. Diddell	100,500	167,500	251,250	10/8/2013	25,000	11.14	113,750
Kathleen S. Dvorak	122,194	203,657	305,486	10/8/2013	15,000	11.14	68,250
Kathleen M. McNally	61,178	101,963	152,945	10/8/2013	7,500	11.14	34,125
James M. Dudek, Jr.	45,212	75,353	113,030	10/8/2013	7,500	11.14	34,125

(1) The exercise price of stock option awards is equal to the closing price of our common stock on the date of grant, as reported on NASDAQ.

(2) Option awards is the amount that the Company would expense in our financial statements over the award's vesting schedule. The fair value of stock option awards is calculated using the Black Scholes value. The fair value for the grants on October 8, 2013, was $4.55. The amounts reflect our accounting expense for these awards and do not correspond to the actual value that will be recognized by each named executive officer. For the relevant assumptions used in determining the fair value of stock option awards, refer to Note 3. "Significant Accounting Policies," in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K Filed with the SEC on July 25, 2014.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information on the holdings of stock option and restricted stock awards by the Named Executive Officers as of the end of fiscal 2014.

Name	Option Awards Number of Securities Underlying Unexercised Options Exercisable (#)(1)	Number of Securities Underlying Unexercised Options Unexercisable (#)(1)	Option Exercise Price ($)	Option Expiration Date(2)
Edward J. Richardson	40,000	10,000	5.67	10/13/2019
Wendy S. Diddell	25,000	—	11.00	6/1/2014
	2,000	—	8.58	10/17/2016
	5,000	—	7.24	10/9/2017
	9,000	—	5.03	10/21/2018
	9,000	3,000	5.67	10/13/2019
	15,000	10,000	13.47	4/12/2021
	5,000	20,000	11.77	10/9/2022
	—	25,000	11.14	10/8/2023
Kathleen S. Dvorak	25,000	—	7.32	11/5/2017
	10,000	—	5.03	10/21/2018
	12,000	3,000	5.67	10/13/2019
	12,000	8,000	13.47	4/12/2021
	4,000	16,000	11.77	10/9/2022
	—	15,000	11.14	10/8/2023
Kathleen M. McNally	7,500	—	8.58	10/17/2016
	7,500	—	7.24	10/9/2017
	7,500	—	5.03	10/21/2018
	6,000	1,500	5.67	10/13/2019
	6,000	4,000	13.47	4/12/2021
	2,000	8,000	11.77	10/9/2022
	—	7,500	11.14	10/8/2023
James M. Dudek, Jr.	—	1,100	5.67	12/17/2017
	6,000	4,000	13.47	10/21/2018
	2,000	8,000	11.77	10/9/2022
	—	7,500	11.14	10/8/2023

(1) Options vest on the anniversary of the grant date and become exercisable in annual increments of 20%.

(2) The expiration date of each option occurs ten years after the date of grant of each option. The table below provides the grant date for each outstanding equity award at the end of fiscal 2014 and the respective vesting schedule.

The table below provides the grant date for each outstanding equity award at the end of fiscal 2014, vested shares, and remaining vesting schedule.

Name	Grant Date [1]	Number of Stock Options Granted	Vesting Years	Vested Shares	Remaining Vesting Period Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
Edward J. Richardson	10/13/2009	50,000	5	40,000	10,000	—	—	—	—
Wendy S. Diddell	6/1/2004	25,000	5	25,000	—	—	—	—	—
	10/17/2006	10,000	5	10,000	—	—	—	—	—
	10/9/2007	12,500	5	12,500	—	—	—	—	—
	10/21/2008	15,000	5	15,000	—	—	—	—	—
	10/13/2009	15,000	5	12,000	3,000	—	—	—	—
	4/12/2011	25,000	5	15,000	5,000	5,000	—	—	—
	10/9/2012	25,000	5	5,000	5,000	5,000	5,000	5,000	—
	10/8/2013	25,000	5	—	5,000	5,000	5,000	5,000	5,000
Kathleen S. Dvorak	11/5/2007	25,000	3	25,000	—	—	—	—	—
	10/21/2008	10,000	5	1,000	—	—	—	—	—
	10/13/2009	15,000	5	12,000					