

RICHARDSON ELECTRONICS LTD/DE  
Form 10-Q  
January 06, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended November 27, 2010

OR

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

For the transition period from \_\_\_\_\_ To \_\_\_\_\_

Commission File Number: 0-12906

**RICHARDSON ELECTRONICS, LTD.**

(Exact name of registrant as specified in its charter)

Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

**Delaware** **36-2096643**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**40W267 Keslinger Road, P.O. Box 393 LaFox, Illinois 60147-0393**

(Address of principal executive offices)

**Registrant's telephone number, including area code: (630) 208-2200**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

As of January 3, 2011, there were outstanding 14,980,190 shares of Common Stock, \$0.05 par value and 3,001,961 shares of Class B Common Stock, \$0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

**Table of Contents**

**TABLE OF CONTENTS**

**Part I. Financial Information**

Item 1.	<u>Financial Statements</u>	2
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	2
	<u>Unaudited Condensed Consolidated Statements of Income and Comprehensive Income</u>	3
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	29

**Part II. Other Information**

Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 5.	<u>Other Information</u>	30
Item 6.	<u>Exhibits</u>	30
	<u>Signatures</u>	31
	<u>Exhibit Index</u>	32

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

	November 27, 2010	May 29, 2010
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 33,033	\$ 29,038
Accounts receivable, less allowance of \$312 and \$369	22,008	19,762
Inventories	26,491	26,797
Prepaid expenses	1,388	1,438
Deferred income taxes	346	317
Discontinued operations - assets	173,168	148,169
<b>Total current assets</b>	<b>256,434</b>	<b>225,521</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	5,752	6,561
Deferred financing costs, net		60
Non-current deferred income taxes	1,550	1,541
Other non-current assets	358	1,132
<b>Total non-current assets</b>	<b>7,660</b>	<b>9,294</b>
<b>Total assets</b>	<b>\$ 264,094</b>	<b>\$ 234,815</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 18,750	\$ 18,067
Accrued liabilities	10,864	10,037
Short-term debt	18,000	19,517
Discontinued operations - liabilities	60,990	53,366
<b>Total current liabilities</b>	<b>108,604</b>	<b>100,987</b>
<b>Non-current liabilities:</b>		
Long-term income tax liabilities	346	254
Other non-current liabilities	494	490
Discontinued operations - non-current liabilities	3,265	3,221
<b>Total non-current liabilities</b>	<b>4,105</b>	<b>3,965</b>
<b>Total liabilities</b>	<b>112,709</b>	<b>104,952</b>

**Commitments and contingencies**

<b>Stockholders equity</b>		
Common stock, \$0.05 par value; issued 16,317 shares at November 27, 2010, and 16,029 shares at May 29, 2010	814	802
Class B common stock, convertible, \$0.05 par value; issued 3,002 shares at November 27, 2010, and 3,048 shares at May 29, 2010	152	152
Preferred stock, \$1.00 par value, no shares issued		
Additional paid-in-capital	123,065	120,998
Common stock in treasury, at cost, 1,370 shares at November 27, 2010, and 1,355 shares at May 29, 2010	(8,665)	(8,503)
Retained earnings	28,061	12,925
Accumulated other comprehensive income	7,958	3,489
<b>Total stockholders equity</b>	<b>151,385</b>	<b>129,863</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 264,094</b>	<b>\$ 234,815</b>

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

	Three Months Ended		Six Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
<b>Statements of Income</b>				
Net sales	\$ 40,980	\$ 33,116	\$ 78,490	\$ 63,130
Cost of sales	29,185	22,216	55,304	43,163
<b>Gross profit</b>	<b>11,795</b>	<b>10,900</b>	<b>23,186</b>	<b>19,967</b>
Selling, general, and administrative expenses	11,198	10,589	21,743	20,997
(Gain) loss on disposal of assets	2		2	(2)
<b>Operating income (loss)</b>	<b>595</b>	<b>311</b>	<b>1,441</b>	<b>(1,028)</b>
Other (income) expense:				
Interest expense	39	325	106	664
Investment income		(8)		(18)
Foreign exchange loss	197	700	316	1,518
Loss on retirement of short-term debt			60	
Other, net	(79)	(91)	(70)	(98)
Total other expense	157	926	412	2,066
Income (loss) from continuing operations before income taxes	438	(615)	1,029	(3,094)
Income tax provision (benefit)	270	(353)	408	(564)
Income (loss) from continuing operations	168	(262)	621	(2,530)
Income from discontinued operations, net of tax	7,291	3,396	15,214	7,579
<b>Net income</b>	<b>\$ 7,459</b>	<b>\$ 3,134</b>	<b>\$ 15,835</b>	<b>\$ 5,049</b>
<u>Net income per Common share - Basic:</u>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.01)	\$ 0.04	\$ (0.14)
Income from discontinued operations	0.42	0.19	0.87	0.43
<b>Total net income per Common share - Basic:</b>	<b>\$ 0.43</b>	<b>\$ 0.18</b>	<b>\$ 0.91</b>	<b>\$ 0.29</b>
<u>Net income per Class B common share - Basic:</u>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.01)	\$ 0.03	\$ (0.13)
Income from discontinued operations	0.38	0.17	0.78	0.39
<b>Total net income per Class B common share - Basic:</b>	<b>\$ 0.39</b>	<b>\$ 0.16</b>	<b>\$ 0.81</b>	<b>\$ 0.26</b>
<u>Net income per Common share - Diluted:</u>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.01)	\$ 0.03	\$ (0.14)
Income from discontinued operations	0.40	0.19	0.84	0.42

Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

<b>Total net income per Common share - Diluted:</b>	<b>\$ 0.41</b>	<b>\$ 0.18</b>	<b>\$ 0.87</b>	<b>\$ 0.28</b>
<b>Net income per Class B common share - Diluted:</b>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.01)	\$ 0.03	\$ (0.13)
Income from discontinued operations	0.37	0.17	0.77	0.39
<b>Total net income per Class B common share - Diluted:</b>	<b>\$ 0.38</b>	<b>\$ 0.16</b>	<b>\$ 0.80</b>	<b>\$ 0.26</b>
<b>Weighted average number of shares:</b>				
Common shares - Basic	14,768	14,864	14,725	14,862
Class B common shares - Basic	3,028	3,048	3,038	3,048
Common shares - Diluted	18,099	17,912	18,010	17,910
Class B common shares - Diluted	3,028	3,048	3,038	3,048
<b>Dividends per common share</b>	<b>\$ 0.020</b>	<b>\$ 0.020</b>	<b>\$ 0.040</b>	<b>\$ 0.040</b>
<b>Dividends per Class B common share</b>	<b>\$ 0.018</b>	<b>\$ 0.018</b>	<b>\$ 0.036</b>	<b>\$ 0.036</b>
<b>Statements of Comprehensive Income</b>				
Net income	\$ 7,459	\$ 3,134	\$ 15,835	\$ 5,049
Foreign currency translation	2,422	3,747	4,440	6,132
Fair value adjustments on investments	32	2	29	(2)
<b>Comprehensive income</b>	<b>\$ 9,913</b>	<b>\$ 6,883</b>	<b>\$ 20,304</b>	<b>\$ 11,179</b>

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

	Three Months Ended		Six Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
<b>Operating activities:</b>				
<b>Net income</b>	\$ 7,459	\$ 3,134	\$ 15,835	\$ 5,049
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	490	1,115	1,385	2,179
Loss from discontinued operations		1,173		1,173
Loss on retirement of short-term debt			60	
Stock compensation expense	160	202	308	351
Deferred income taxes	(85)	260	(31)	84
Accounts receivable	(9,536)	(4,786)	(11,212)	1,039
Inventories	(3,473)	7,705	(10,016)	5,885
Prepaid expenses	(862)	204	(1,704)	(1,472)
Accounts payable	7,361	(988)	6,651	(8,731)
Accrued liabilities	1,762	591	2,021	946
Other	(481)	(1,711)	(61)	(1,804)
<b>Net cash provided by operating activities</b>	<b>2,795</b>	<b>6,899</b>	<b>3,236</b>	<b>4,699</b>
<b>Investing activities:</b>				
Capital expenditures	(97)	(214)	(496)	(494)
Proceeds from sales of available-for-sale securities	73	64	83	103
Purchases of available-for-sale securities	(73)	(64)	(83)	(103)
Other	(40)	(10)	(33)	(27)
<b>Net cash used in investing activities</b>	<b>(137)</b>	<b>(224)</b>	<b>(529)</b>	<b>(521)</b>
<b>Financing activities:</b>				
Proceeds from borrowings	47,300		109,600	10,200
Payments on debt	(51,300)		(91,600)	(10,200)
Payments on retirement of short-term debt			(19,517)	
Repurchase of common stock	(162)		(162)	
Proceeds from issuance of common stock	1,607		1,771	5
Cash dividends paid	(351)	(352)	(699)	(704)
Other		10		10
<b>Net cash used in financing activities</b>	<b>(2,906)</b>	<b>(342)</b>	<b>(607)</b>	<b>(689)</b>
Effect of exchange rate changes on cash and cash equivalents	1,299	1,829	1,895	2,581
<b>Increase in cash and cash equivalents</b>	<b>1,051</b>	<b>8,162</b>	<b>3,995</b>	<b>6,070</b>
Cash and cash equivalents at beginning of period	31,982	41,795	29,038	43,887
<b>Cash and cash equivalents at end of period</b>	<b>\$ 33,033</b>	<b>\$ 49,957</b>	<b>\$ 33,033</b>	<b>\$ 49,957</b>





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

	Common	Class B Common	Par Value	Additional Paid In Capital	Common Stock in Treasury	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
<b>Balance May 29, 2010:</b>	16,029	3,048	\$ 954	\$ 120,998	\$ (8,503)	\$ 12,925	\$ 3,489	\$ 129,863
Net income						15,835		15,835
Foreign currency translation							4,440	4,440
Fair value adjustments on investments							29	29
Share-based compensation:								
Non-vested restricted stock				11				11
Stock options				292				292
Common stock:								
Employee stock option grant	1			5				5
Options Exercised	241		12	1,759				1,771
Canceled Shares								
Converted Class B to Common	46	(46)						
Repurchase of common stock					(162)			(162)
Restricted stock grants								
Treasury stock								
Dividends paid to:								
Common (\$0.04 per share)						(589)		(589)
Class B (\$0.036 per share)						(110)		(110)
<b>Balance November 27, 2010:</b>	16,317	3,002	\$ 966	\$ 123,065	\$ (8,665)	\$ 28,061	\$ 7,958	\$ 151,385

---

**Table of Contents**

**RICHARDSON ELECTRONICS, LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF THE COMPANY**

Richardson Electronics, Ltd. ( we , us , and our ) was originally incorporated in the state of Illinois in 1947 and is currently incorporated in the state of Delaware. We are a global provider of engineered solutions, a global distributor of electronic components to the radio frequency, wireless and power management, and electron device markets, and a global provider of display solutions to the display systems markets. Utilizing our core engineering and manufacturing capabilities, our strategy is to provide specialized technical expertise and value-add, or engineered solutions. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of our customers. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

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

On October 1, 2010, we entered into an acquisition agreement which provides that Arrow Electronics, Inc. ( Arrow ) will acquire all of the assets primarily used or held for use in, our Radio Frequency, Wireless & Power Division ( RFPD ), as well as certain other assets, including our information technology assets, in exchange for \$210 million in cash payable at closing, subject to a post-closing working capital adjustment (the Transaction ).

After the Transaction is completed, which we expect to be within the next 60 days, we will have two operating segments, which we define as follows:

*Electron Device Group* ( EDG ) provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

*Canvys* provides global integrated display products, systems and digital signage solutions serving the financial, corporate enterprise, healthcare, and industrial markets.

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

**2. BASIS OF PRESENTATION**

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

The unaudited condensed consolidated balance sheet and unaudited condensed consolidated statement of income for the fiscal year ended May 29, 2010, and three and six months ended November 28, 2009, have been restated to reflect the impending sale of RFPD to Arrow

## Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Electronics, Inc. See Note 4 Discontinued Operations of our notes to our unaudited condensed consolidated financial statements for additional discussion on the sale of our RFPD segment.

Our fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first six months of fiscal 2011 and 2010 each contained 26 weeks.

## **Table of Contents**

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited condensed consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. The results of our operations for the three and six months ended November 27, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending May 28, 2011.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended May 29, 2010.

### **3. UPDATES TO CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

**Inventories:** Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Inventories include material, labor, and overhead associated with such inventories. Substantially all inventories represent finished goods held for sale.

We do not anticipate any material risks or uncertainties related to possible inventory write-downs for the remainder of our fiscal 2011, ending May 28, 2011.

**Revenue Recognition:** Our product sales are recognized as revenue upon shipment, when title passes to the customer, when delivery has occurred or services have been rendered, and when collectability is reasonably assured. Our sales are recorded net of discounts and returns based on our historical experience. Our products are often manufactured to meet the specific design needs of our customers' applications. Our engineers work closely with customers to ensure that our products will meet their needs. Our customers are under no obligation to compensate us for designing the products we sell.

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

We have also concluded that, in the limited cases where remaining obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory. This conclusion was reached based on the following facts: the timing of any remaining obligation is agreed upon with the customer, which in most cases, is performed immediately after the delivery of the product; the cost and time involved to complete the remaining obligation is minimal, the costs and time do not vary significantly; we have a demonstrated history of completing the remaining obligations timely; and finally, failure to complete the remaining obligation does not enable the customer to receive a full or partial refund of the product or the service.

**Discontinued Operations:** In accordance with ASC 205-20, *Presentation of Financial Statements- Discontinued Operations* ( ASC 205-20 ), we reported the results of RFPD as a discontinued operation. The application of ASC 205-20 is discussed in Note 4 *Discontinued Operations* of our notes to unaudited condensed consolidated financial statements for additional discussion on the sale of our RFPD segment.

**Loss Contingencies:** We accrue a liability for loss contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. If we determine that there is at least a reasonable possibility that a loss may have been incurred, we will include a disclosure describing the contingency.

**Table of Contents****4. DISCONTINUED OPERATIONS****Arrow Transaction**

On October 1, 2010, we entered into an acquisition agreement which provides that Arrow will acquire all of the assets primarily used or held for use in RFPD, as well as certain other assets, including our information technology assets, in exchange for \$210 million in cash payable at closing, subject to a post-closing working capital adjustment.

To help facilitate the transition of RFPD to Arrow Electronics, we agreed to provide certain transitional services to Arrow such as financial support services, warehouse services, and access to facilities in accordance with the terms of the Transition Services Agreement. The duration of the transitional services are expected to be less than one year from the closing date of the Transaction. Arrow also agreed to provide certain transitional services such as information technology services, warehouse services, and access to facilities and equipment in accordance with the terms of the Transition Services Agreement. The duration of these transitional services are also expected to be less than one year from the closing date of the Transaction, except for the information technology services which is expected to be three years. In addition, we will also enter into a Manufacturing Agreement with Arrow, in connection with the Transaction, for a term of three years. Pursuant to the Manufacturing Agreement, we will agree to manufacture and sell certain products used in the RFPD business to Arrow.

The Transition Services Agreement, which commences upon the closing of the Transaction, will allow us to exert very limited influence over RFPD's operating and financial policies. Also, the continuing cash flows related to our Transition Services Agreement as well as the Manufacturing Agreement, are insignificant. We believe it is appropriate to include the revenue and costs associated with the Transition Services Agreement that relate to financial support, certain facilities, and certain warehouse services in discontinued operations as they relate specifically to RFPD. We further believe it is appropriate to treat the revenue and costs associated with the Manufacturing Agreement in discontinued operations as it also relates specifically to RFPD.

**Honeywell Transaction**

On May 31, 2007, we completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) to Honeywell International Inc. (Honeywell). The sale agreement of SSD/Burtek to Honeywell contemplated a post-closing working capital-based purchase price adjustment. During the second quarter of fiscal 2008, we received notification from Honeywell seeking a purchase price adjustment and we issued a dispute notice in a timely manner. On December 18, 2009, we reached an agreement with Honeywell to settle the pending working capital disputes as well as other related claims. As a result, we recorded \$1.2 million of expense, net of zero tax effect, as a loss from discontinued operations, for the second quarter ended November 28, 2009.

**Financial Summary**

Net sales, gross profit, selling, general, and administrative expenses, interest expense, investment income, income tax provision, and income from discontinued operations for the three and six month periods ended November 27, 2010, and November 28, 2009, are presented in the following table (*in thousands*):

	Three Months		Six Months	
	Nov 27, 2010	Nov 28, 2009	Nov 27, 2010	Nov 28, 2009
Net sales	\$ 108,786	\$ 82,818	\$ 208,420	\$ 162,296
Gross profit	23,120	18,141	44,320	35,543
Selling, general, and administrative expenses	15,014	14,257	27,764	26,792
Interest expense	101	774	268	1,580
Investment income		(19)		(42)
Income tax provision/(benefit)	714	(267)	1,074	(366)
Income from discontinued operations, net of tax	7,291	3,396	15,214	7,579

**Table of Contents**

In accordance with ASC 205-20, the allocation of interest expense to discontinued operations of other consolidated interest that is not directly attributable to or related to other operations of the entity is permitted but not required. The consolidated interest that cannot be attributable to other operations of the entity is allocated based on the ratio of net assets to be sold or discontinued to the total consolidated net assets. We appropriately allocated approximately \$0.1 million and \$0.8 million of interest expense to discontinued operations for the three months ended November 27, 2010, and November 28, 2009, respectively, using the ratio of net assets to be sold or discontinued to the total consolidated net assets. We allocated approximately \$0.3 million and \$1.6 million of interest expense to discontinued operations for the six months ended November 27, 2010, and November 28, 2009, using the same allocation methodology.

Assets and liabilities classified as discontinued operations on our unaudited condensed consolidated balance sheet as of November 27, 2010, and May 29, 2010, include the following (*in thousands*):

	Nov 27, 2010	May 29, 2010
Accounts receivable	\$ 91,470	\$ 78,929
Inventories	62,891	51,933
Prepaid expenses	4,385	3,076
Current deferred income taxes	2,278	2,087
Property, plant, and equipment, net	10,100	10,114
Non-current deferred income taxes	2,044	2,030
<b>Discontinued Operations Assets</b>	<b>\$ 173,168</b>	<b>\$ 148,169</b>
Accounts payable	\$ 49,997	\$ 43,549
Accrued liabilities	10,005	8,770
Long-term income tax liabilities	3,265	3,221
Other non-current liabilities	988	1,047
<b>Discontinued Operations Liabilities</b>	<b>\$ 64,255</b>	<b>\$ 56,587</b>

Included in discontinued operations above are assets and liabilities held for sale in connection with the sale of RFPD to Arrow as follows (*in thousands*):

	Nov 27, 2010	May 29, 2010
Accounts receivable	\$ 85,558	\$ 70,605
Inventories	62,050	50,923
Property, plant and equipment, net	10,100	10,114
<b>Total assets held for sale</b>	<b>\$ 157,708</b>	<b>\$ 131,642</b>
Accounts payable	\$ 47,641	\$ 41,877
<b>Total liabilities held for sale</b>	<b>\$ 47,641</b>	<b>\$ 41,877</b>

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. We currently do not have cash balances that are specific to RFPD and as a result, we believe that the appropriate presentation would be to not separate cash flows from discontinued operations on our statement of cash flows.





**Table of Contents****5. INVESTMENT IN MARKETABLE EQUITY SECURITIES**

Our investments are primarily equity securities, all of which are classified as available-for-sale and are carried at their fair value based on the quoted market prices. Our investments, which are included in other non-current assets, had a carrying amount of \$0.3 million as of November 27, 2010, and May 29, 2010, respectively. Proceeds from the sale of securities were \$0.1 million during the second quarter and first six months of fiscal 2011 and 2010. Gross realized gains and losses on those sales were less than \$0.1 million during the second quarter and first six months of fiscal 2011 and 2010. Net unrealized holding gains of less than \$0.1 million during the second quarter and first six months of fiscal 2011 and fiscal 2010, have been included in accumulated other comprehensive income.

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

Description of Securities	Marketable Security Holding Length				Total	
	Less Than 12 Months		More Than 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
November 27, 2010						
Common Stock	\$ 28	\$ 3	\$ 13	\$ 1	\$ 41	\$ 4
May 29, 2010						
Common Stock	\$ 60	\$ 8	\$ 17	\$ 2	\$ 77	\$ 10

**6. WARRANTIES**

We offer warranties for the limited number of specific products we manufacture. We also provide extended warranties for some products we sell that lengthen the period of coverage specified in the manufacturer's original warranty. Our warranty terms generally range from one to three years.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves, which are included in accrued liabilities on our condensed consolidated balance sheets, were approximately \$0.1 million and \$0.1 million as of November 27, 2010, and May 29, 2010, respectively.

**7. DEBT****Credit Agreement**

On May 28, 2010, we entered into a sixth amendment ( *Credit Agreement Amendment* ) to the revolving credit agreement ( *Credit Agreement* ) by and among us, certain of our subsidiaries, the lenders party thereto, and JP Morgan Bank, N.A., as administrative agent. The *Credit Agreement Amendment* increased the aggregate commitment for the revolving credit facility under the *Credit Agreement* from \$20.0 million to \$40.0 million and extended the termination date of the *Credit Agreement* from October 31, 2010, to May 31, 2013, or any earlier day on which the aggregate commitment is reduced to zero or the *Credit Agreement* is otherwise terminated pursuant to its terms. The *Credit Agreement Amendment* also requires us to maintain a leverage ratio of less than 2.5 to 1.0 at all times after March 1, 2008. The *Credit Agreement Amendment* permitted us to redeem all of our outstanding 7 <sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes ( *7<sup>3</sup>/<sub>4</sub>% Notes* ), provided that no default or un-matured default under the *Credit Agreement* has occurred and continued on the date of the redemption and provided further that the represented and warranties contained in the *Credit Agreement* were true and correct on the date of the redemption and remain true and correct after giving effect to the redemption. We used proceeds from the *Credit Agreement* to redeem the *7<sup>3</sup>/<sub>4</sub>% Notes*.

On August 26, 2010, we notified JP Morgan Bank, N.A., to reduce our aggregate commitment on our revolving credit line from \$40.0 million to \$36.0 million.

**Table of Contents**

On November 10, 2010, we notified JP Morgan Bank, N.A., to reduce our aggregate commitment on our revolving credit line from \$36.0 million to \$32.0 million.

As of November 27, 2010, there was \$18.0 million outstanding under the revolving credit agreement. There were no amounts outstanding under the reserve for usage on our commercial credit card program and outstanding letters of credit were approximately \$0.1 million, leaving an unused line of \$13.9 million. Based on our loan covenants, actual available credit as of November 27, 2010, was \$13.9 million. We were in compliance with our loan covenants as of November 27, 2010.

**7 <sup>3</sup>/<sub>4</sub>% Convertible Senior Subordinated Notes**

On June 1, 2010, we notified the holders of our 7 <sup>3</sup>/<sub>4</sub>% Notes that we elected to redeem all \$19.5 million of the aggregate outstanding principal amount. We redeemed the 7 <sup>3</sup>/<sub>4</sub>% Notes on June 11, 2010, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest.

**8. LEASE OBLIGATIONS, OTHER COMMITMENTS, AND CONTINGENCIES**

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense from continuing operations during the first six months of fiscal 2011 was \$1.5 million. Under the terms of the Transaction, Arrow will be assuming many of our facility leases and we will sub-lease space from Arrow. Our future lease commitments for minimum rentals, including common area maintenance charges and property taxes during the second half of fiscal 2011 and the next four years have been adjusted to reflect the Transaction as follows (*in thousands*) :

Fiscal Year	Payments
Second Half of Fiscal 2011	\$ 972
2012	\$ 1,263
2013	\$ 513
2014	\$ 234
2015	\$ 231
Thereafter	\$ 539

**9. INCOME TAXES**

The effective income tax rate from continuing operations during the second quarter and first six months of fiscal 2011 was a tax provision of 61.6% and 39.7%, respectively, as compared to a tax benefit of 57.4% and 18.2% for the second quarter and first six months of fiscal 2010, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 35.0% and 34.0% during the second quarter of fiscal 2011 and fiscal 2010 resulted from our geographical distribution of taxable income or losses, valuation allowances in the U.S. and several foreign jurisdictions, the use of net operating losses that had a valuation allowance, and changes in foreign tax reserves from both new tax reserves and the release of tax reserves due to expiring statute of limitations. There were no changes in judgment during the quarter regarding the beginning-of-year valuation allowance which would require a benefit to be excluded from the annual effective tax rate and allocated to the interim period.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state, or local tax examinations by tax authorities for years prior to fiscal 2004. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years prior to fiscal 2003. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal 2003; in Japan, the Netherlands and Germany beginning in fiscal 2005; and in China beginning in calendar year 2005.

## **Table of Contents**

As a result of the Transaction to sell RFPD, we no longer consider approximately \$26.0 million of undistributed foreign earnings to be permanently reinvested in our non-U.S. subsidiaries. We currently have a valuation allowance against substantially all of our U.S. deferred tax assets. We have not provided for U.S. deferred income taxes or foreign withholding tax on the remainder of undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested and it is not practicable to estimate the amount of tax that may be payable upon distribution.

As of November 27, 2010, our worldwide liability for uncertain tax positions, excluding interest and penalties, was \$3.5 million as compared to \$3.3 million as of May 29, 2010. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited condensed consolidated statements of operations and comprehensive income (loss).

It is reasonably possible that there will be a change in the unrecognized tax benefits, excluding interest and penalties, in the range of \$0 to approximately \$0.4 million due to the expiration of various statutes of limitations and uncertain tax positions being effectively settled with taxing authorities within the next 12 months.

### **10. CALCULATION OF EARNINGS PER SHARE**

We have authorized 30,000,000 shares of common stock, 10,000,000 shares of Class B common stock, and 5,000,000 shares of preferred stock. The Class B common stock has 10 votes per share and has transferability restrictions; however, Class B common stock may be converted into common stock on a share-for-share basis at any time. With respect to dividends and distributions, shares of common stock and Class B common stock rank equally and have the same rights, except that Class B common stock cash dividends are limited to 90% of the amount of common stock cash dividends.

In accordance with ASC 260-10, *Earnings Per Share* ( ASC 260 ), our Class B common stock is considered a participating security requiring the use of the two-class method for the computation of basic and diluted earnings per share. The two-class computation method for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Basic and diluted earnings per share were computed using the two-class method as prescribed in ASC 260. The shares of Class B common stock are considered to be participating convertible securities since the shares of Class B common stock are convertible on a share-for-share basis into shares of common stock and may participate in dividends with common stock according to a predetermined formula which is 90% of the amount of common stock cash dividends.

Diluted earnings per share is calculated by dividing net income, adjusted for interest savings, net of tax, on assumed conversion of convertible debentures and notes, by the actual shares outstanding and share equivalents that would arise from the exercise of stock options, certain restricted stock awards, and the assumed conversion of convertible debentures and notes when dilutive. For the second quarter and first six months of fiscal 2011, our 7 <sup>3</sup>/<sub>4</sub>% Notes were repurchased, thus eliminating any effect from the dilutive calculation. For the second quarter and first six months of fiscal 2010, the assumed conversion and the effect of the interest savings of our 7 <sup>3</sup>/<sub>4</sub>% Notes were excluded because their inclusion would have been anti-dilutive.

**Table of Contents**

The earnings per share ( EPS ) presented in our unaudited condensed consolidated statements of income and comprehensive income are based on the following amounts (in thousands, except per share amounts):

	Three Months Ended			
	November 27, 2010		November 28, 2009	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
<b>Income (loss) from continuing operations</b>	\$ 168	\$ 168	\$ (262)	\$ (262)
Less dividends:				
Common stock	297	297	297	297
Class B common stock	55	55	55	55
Undistributed losses	\$ (184)	\$ (184)	\$ (614)	\$ (614)
Common stock undistributed losses	\$ (155)	\$ (156)	\$ (518)	\$ (518)
Class B common stock undistributed losses	(29)	(28)	(96)	(96)
<b>Total undistributed losses</b>	<b>\$ (184)</b>	<b>\$ (184)</b>	<b>\$ (614)</b>	<b>\$ (614)</b>
<b>Income from discontinued operations</b>	<b>\$ 7,291</b>	<b>\$ 7,291</b>	<b>\$ 3,396</b>	<b>\$ 3,396</b>
Less dividends:				
Common stock	297	297	297	297
Class B common stock	55	55	55	55
Undistributed earnings	\$ 6,939	\$ 6,939	\$ 3,044	\$ 3,044
Common stock undistributed earnings	\$ 5,858	\$ 5,876	\$ 2,570	\$ 2,570
Class B common stock undistributed earnings	1,081	1,063	474	474
<b>Total undistributed earnings</b>	<b>\$ 6,939</b>	<b>\$ 6,939</b>	<b>\$ 3,044</b>	<b>\$ 3,044</b>
<b>Net income</b>	<b>\$ 7,459</b>	<b>\$ 7,459</b>	<b>\$ 3,134</b>	<b>\$ 3,134</b>
Less dividends:				
Common stock	297	297	297	297
Class B common stock	55	55	55	55
Undistributed earnings	\$ 7,107	\$ 7,107	\$ 2,782	\$ 2,782
Common stock undistributed earnings	\$ 6,000	\$ 6,019	\$ 2,349	\$ 2,349
Class B common stock undistributed earnings	1,107	1,088	433	433
<b>Total undistributed earnings</b>	<b>\$ 7,107</b>	<b>\$ 7,107</b>	<b>\$ 2,782</b>	<b>\$ 2,782</b>
<i>Denominator for basic and diluted EPS:</i>				
Common stock weighted average shares	14,768	14,768	14,864	14,864
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	3,028	3,028	3,048	3,048
Effect of dilutive securities				
Unvested restricted stock awards				
Dilutive stock options		303		

Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		18,099		17,912
<b>Income (loss) from continuing operations per share:</b>				
Common stock	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.01)
Class B common stock	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.01)
<b>Income from discontinued operations per share:</b>				
Common stock	\$ 0.42	\$ 0.40	\$ 0.19	\$ 0.19
Class B common stock	\$ 0.38	\$ 0.37	\$ 0.17	\$ 0.17
<b>Net income per share:</b>				
Common stock	\$ 0.43	\$ 0.41	\$ 0.18	\$ 0.18
Class B common stock	\$ 0.39	\$ 0.38	\$ 0.16	\$ 0.16

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2011 were 967,726.*

**Table of Contents**

	Six Months Ended			
	November 27, 2010 Basic	November 27, 2010 Diluted	November 28, 2009 Basic	November 28, 2009 Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
<b>Income (loss) from continuing operations</b>	\$ 621	\$ 621	\$ (2,530)	\$ (2,530)
Less dividends:				
Common stock	589	589	594	594
Class B common stock	110	110	110	110
Undistributed earnings or losses	\$ (78)	\$ (78)	\$ (3,234)	\$ (3,234)
Common stock undistributed earnings or losses	\$ (66)	\$ (66)	\$ (2,730)	\$ (2,730)
Class B common stock undistributed earnings or losses	(12)	(12)	(504)	(504)
<b>Total undistributed earnings or losses</b>	\$ (78)	\$ (78)	\$ (3,234)	\$ (3,234)
<b>Income from discontinued operations</b>	\$ 15,214	\$ 15,214	\$ 7,579	\$ 7,579
Less dividends:				
Common stock	589	589	594	594
Class B common stock	110	110	110	110
Undistributed earnings	\$ 14,515	\$ 14,515	\$ 6,875	\$ 6,875
Common stock undistributed earnings	\$ 12,242	\$ 12,274	\$ 5,804	\$ 5,804
Class B common stock undistributed earnings	2,273	2,241	1,071	1,071
<b>Total undistributed earnings</b>	\$ 14,515	\$ 14,515	\$ 6,875	\$ 6,875
<b>Net income</b>	\$ 15,835	\$ 15,835	\$ 5,049	\$ 5,049
Less dividends:				
Common stock	589	589	594	594
Class B common stock	110	110	110	110
Undistributed earnings	\$ 15,136	\$ 15,136	\$ 4,345	\$ 4,345
Common stock undistributed earnings	\$ 12,766	\$ 12,799	\$ 3,668	\$ 3,668
Class B common stock undistributed earnings	2,370	2,337	677	677
<b>Total undistributed earnings</b>	\$ 15,136	\$ 15,136	\$ 4,345	\$ 4,345
<i>Denominator for basic and diluted EPS:</i>				
Common stock weighted average shares	14,725	14,725	14,862	14,862
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	3,038	3,038	3,048	3,048
Effect of dilutive securities				
Unvested restricted stock awards				
Dilutive stock options		247		
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		18,010		17,910
<b>Income (loss) from continuing operations per share:</b>				
Common stock	\$ 0.04	\$ 0.03	\$ (0.14)	\$ (0.14)

Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Class B common stock	\$ 0.03	\$ 0.03	\$ (0.13)	\$ (0.13)
<b>Income from discontinued operations per share:</b>				
Common stock	\$ 0.87	\$ 0.84	\$ 0.43	\$ 0.42
Class B common stock	\$ 0.78	\$ 0.77	\$ 0.39	\$ 0.39
<b>Net income per share:</b>				
Common stock	\$ 0.91	\$ 0.87	\$ 0.29	\$ 0.28
Class B common stock	\$ 0.81	\$ 0.80	\$ 0.26	\$ 0.26

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2011 were 1,023,724.*

**Table of Contents****11. SEGMENT REPORTING**

In accordance with ASC 280-10, *Segment Reporting*, we have identified two reportable segments: EDG and Canvys.

EDG provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

Canvys provides global integrated display products, systems and digital signage solutions serving the financial, corporate enterprise, healthcare, and industrial markets.

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

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

	Net Sales	Gross Profit
<b><u>Second Quarter Fiscal 2011</u></b>		
EDG	28,655	8,942
Canvys	12,325	2,853
Total	\$ 40,980	\$ 11,795
<b><u>Second Quarter Fiscal 2010</u></b>		
EDG	20,121	7,366
Canvys	12,995	3,535
Total	\$ 33,116	\$ 10,901
<b><u>First Six Months Fiscal 2011</u></b>		
EDG	56,148	17,998
Canvys	22,342	5,188
Total	\$ 78,490	\$ 23,186
<b><u>First Six Months Fiscal 2010</u></b>		
EDG	38,917	13,633
Canvys	24,213	6,335
Total	\$ 63,130	\$ 19,968



**Table of Contents**

A reconciliation of net sales, gross profit, and assets to the relevant consolidated amounts is as follows (*in thousands*):

	Three Months Ended		Six Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
Segment net sales	\$ 40,980	\$ 33,116	\$ 78,490	\$ 63,130
<b>Net sales</b>	\$ 40,980	\$ 33,116	\$ 78,490	\$ 63,130
Segment gross profit	\$ 11,795	\$ 10,901	\$ 23,186	\$ 19,968
Manufacturing variances and other costs		(1)		(1)
<b>Gross profit</b>	\$ 11,795	\$ 10,900	\$ 23,186	\$ 19,967

	November 27, 2010	May 29, 2010
Segment assets	\$ 47,775	\$ 45,627
Cash and cash equivalents	33,033	29,038
Other current assets (1)	2,458	2,687
Net property	5,752	6,561
Other assets (2)	1,908	2,733
Assets of discontinued operations (3)	173,168	148,169
<b>Total assets</b>	\$ 264,094	\$ 234,815

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

(2) Other assets include investments, notes receivable, non-current deferred income taxes and other assets.

(3) See Footnote 4 - Discontinued Operations Held for Sale

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

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

	Three Months Ended		Six Months Ended	
	November 27, 2010	November 28, 2009	November 27, 2010	November 28, 2009
<b>Net Sales</b>				
North America	\$ 17,318	\$ 15,829	\$ 33,246	\$ 29,495
Asia/Pacific	6,970	5,496	13,675	9,895
Europe	13,563	9,769	25,409	19,241
Latin America	2,564	2,019	5,394	4,492
Corporate	565	3	766	7
<b>Total</b>	\$ 40,980	\$ 33,116	\$ 78,490	\$ 63,130
<b>Gross Profit</b>				
North America	\$ 5,347	\$ 4,847	\$ 10,422	\$ 8,882

Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Asia/Pacific	2,375	2,073	4,837	3,652
Europe	3,765	3,156	6,903	6,094
Latin America	1,020	759	2,162	1,756
Corporate	(712)	65	(1,138)	(417)
Total	\$ 11,795	\$ 10,900	\$ 23,186	\$ 19,967

**Table of Contents**

We sell our products to customers in diversified industries and perform periodic credit evaluations of our customers' financial condition. Terms are generally on open account, payable net 30 days in North America, and vary throughout Asia/Pacific, Europe, and Latin America. Estimates of credit losses are recorded in the financial statements based on monthly reviews of outstanding accounts. Corporate primarily includes unabsorbed value-add costs and other unallocated expenses.

**12. FAIR VALUE MEASUREMENTS**

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

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

As of November 27, 2010, we held investments that are required to be measured at fair value on a recurring basis. Our investments primarily consist of equity securities of publicly traded companies for which market prices are readily available.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of November 27, 2010, were as follows (*in thousands*):

	Level 1	Level 2	Level 3
Equity securities	\$ 358	\$	\$

**13. LITIGATION**

We are involved in several pending judicial proceedings concerning matters arising in the ordinary course of business. While the outcome of litigation is subject to uncertainties, based on information available at the time the financial statements were issued, we determined disclosure of contingencies relating to any of our pending judicial proceedings was not necessary because there was less than a reasonable possibility that a material loss had been incurred.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms may, should, could, anticipate, believe, continues, estimate, expect, intend, objective, plan, potential, project and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of our Annual Report on Form 10-K. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise. You should consider carefully the risk factors described in our Annual Report on Form 10-K, in addition to the other information included and incorporated by reference in this Quarterly Report on Form 10-Q.*

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

**INTRODUCTION**

Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial condition, critical accounting policies and estimates, and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the accompanying notes thereto appearing elsewhere herein. This section is organized as follows:

**Business Overview**

**Results of Operations** – an analysis and comparison of our consolidated results of operations for the three and six month periods ended November 27, 2010, and November 28, 2009, as reflected in our unaudited condensed consolidated statements of income and comprehensive income.

**Liquidity, Financial Position, and Capital Resources** – a discussion of our primary sources and uses of cash for the six month periods ended November 27, 2010, and November 28, 2009, and a discussion of changes in our financial position.

**BUSINESS OVERVIEW**

Richardson Electronics, Ltd. ( we , us , and our ) was originally incorporated in the state of Illinois in 1947 and is currently incorporated in the state of Delaware. We are a global provider of engineered solutions, a global distributor of electronic components to the radio frequency, wireless and power management, and electron device markets, and a global provider of display solutions to the display systems markets. Utilizing our core engineering and manufacturing capabilities, our strategy is to provide specialized technical expertise and value-add, or engineered solutions. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of our customers. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

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



## **Table of Contents**

On October 1, 2010, we entered into an acquisition agreement which provides that Arrow Electronics, Inc. ( *Arrow* ) will acquire all of the assets primarily used or held for use in, our Radio Frequency, Wireless & Power Division ( *RFPD* ), as well as certain other assets, including our information technology assets, in exchange for \$210 million in cash payable at closing, subject to a post-closing working capital adjustment (the *Transaction* ).

As a result of the pending *Transaction*, *RFPD* is presented as a discontinued operation for our unaudited condensed consolidated balance sheet and unaudited condensed consolidated statements of income for the three and six months ended November 27, 2010, and November 28, 2009.

We estimate that our after-tax proceeds from the *Transaction* will be approximately \$180 - \$185 million. We have not yet determined how we will use the proceeds, but we may use them for a variety of purposes, including any or all of the following: strategic acquisitions, repurchases of outstanding shares of common stock, dividends to stockholders and general corporate purposes.

The strategic acquisitions that we may pursue include technology related to the engineering and manufacturing of components, including components used in alternative energy markets. However, we have not yet made any decisions regarding any acquisitions or any other use of the proceeds from the *Transaction*.

We are developing a plan to align our cost structure for our remaining businesses after the closing of the *Transaction* with the near term goal of achieving a 5% operating margin.

After the *Transaction* is completed, which we expect to be within the next 60 days, we will have two operating segments, which we define as follows:

*Electron Device Group* ( *EDG* ) provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

*Canvys* provides global integrated display products, systems and digital signage solutions serving the financial, corporate enterprise, healthcare, and industrial markets.

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

## **RESULTS OF CONTINUING OPERATIONS**

### **Financial Summary Three Months Ended November 27, 2010**

Net sales for the second quarter of fiscal 2011 were \$41.0 million, up 23.7%, compared to net sales of \$33.1 million during the second quarter of last year.

## Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Gross margin as a percentage of net sales decreased to 28.8% during the second quarter of fiscal 2011 compared to 32.9% during the second quarter of last year.

SG&A expenses during the second quarter of Fiscal 2011 were \$11.2 million, or 27.3% of net sales, compared to \$10.6 million, or 32.0% of net sales, during the second quarter of last year.

Operating income during the second quarter of fiscal 2011 was \$0.6 million, or 1.5% of net sales, compared to \$0.3 million, or 0.9% of net sales, for the second quarter last year.

**Table of Contents**

Income from continuing operations during the second quarter of fiscal 2011 was \$0.2 million, or \$0.01 per diluted common share, compared to a loss from continuing operations of \$0.3 million during the second quarter of last year.

Income from discontinued operations, net of tax, was \$7.3 million, or \$0.40 per diluted common share, during the second quarter of fiscal 2011 compared to \$3.4 million, or \$0.19 per diluted common share, during the second quarter of fiscal 2010.

Net income during the second quarter of fiscal 2011 was \$7.5 million, or \$0.41 per diluted common share, compared to net income of \$3.1 million, or \$0.18 per diluted common share, in the prior year's second quarter.

**Financial Summary Six Months Ended November 27, 2010**

Net sales for the first six months of fiscal 2011 were \$78.5 million, up 24.3%, compared to net sales of \$63.1 million during the first six months of last year.

Gross margin as a percentage of net sales decreased to 29.5% during the first six months of fiscal 2011 compared to 31.6% during the first six months of last year.

SG&A expenses during the first six months of Fiscal 2011 were \$21.7 million, or 27.7% of net sales, compared to \$21.0 million, or 33.3% of net sales, during the first six months of last year.

Operating income during the first six months of fiscal 2011 was \$1.4 million, or 1.8% of net sales, compared to a loss of \$1.0 million for the first six months of last year.

Income from continuing operations during the first six months of fiscal 2011 was \$0.6 million, or \$0.03 per diluted common share, compared to a loss from continuing operations of \$2.5 million, during the first six months of last year.

Income from discontinued operations, net of tax, was \$15.2 million, or \$0.84 per diluted common share, during the first six months of fiscal 2011 compared to \$7.6 million, or \$0.42 per diluted common share, during the first six months of fiscal 2010.

Net income during the first six months of fiscal 2011 was \$15.8 million, or \$0.87 per diluted common share, compared to net income of \$5.0 million, or \$0.28 per diluted common share, during the first six months of the prior year.

***Net Sales and Gross Profit Analysis***

During the second quarter of fiscal 2011, consolidated net sales increased 23.7% compared to the second quarter of fiscal 2010, reflecting a 42.4% sales growth in EDG, offset by a 5.2% decline in sales for Canvys. During the first six months of fiscal 2011, consolidated net sales increased 24.3% compared to the first six months of fiscal 2010, reflecting a 44.3% sales growth in EDG, offset by a 7.7% decline in sales for Canvys.



**Table of Contents**

Net sales by segment and percent change during the second quarter and first six months of fiscal 2011 and 2010 were as follows (*in thousands*):

**Net Sales**

	FY 2011	FY 2010	% Change
<b>Second Quarter</b>			
EDG	\$ 28,655	\$ 20,121	42.4%
Canvys	12,325	12,995	(5.2%)
Total	\$ 40,980	\$ 33,116	23.7%
<b>First Six Months</b>			
EDG	\$ 56,148	\$ 38,917	44.3%
Canvys	22,342	24,213	(7.7%)
Total	\$ 78,490	\$ 63,130	24.3%

Consolidated gross profit as a percentage of net sales decreased to 28.8% during the second quarter of fiscal 2011, as compared to 32.9% during the second quarter of fiscal 2010 and to 29.5% during the first six months of fiscal 2011, as compared to 31.6% during the first six months of fiscal 2010. The decrease primarily reflects a distribution agreement that requires us to maintain customer price commitments.

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

Gross profit by segment and percent of segment net sales during the second quarter and first six months of fiscal 2011 and 2010 were as follows (*in thousands*):

**Gross Profit**

	FY 2011	% of Net Sales	FY 2010	% of Net Sales
<b>Second Quarter</b>				
EDG	\$ 8,942	31.2%	\$ 7,366	36.6%
Canvys	2,853	23.1%	3,535	27.2%
Total	\$ 11,795	28.8%	\$ 10,901	32.9%
<b>First Six Months</b>				
EDG	\$ 17,998	32.1%	\$ 13,633	35.0%
Canvys	5,188	23.2%	6,335	26.2%
Total	\$ 23,186	29.5%	\$ 19,968	31.6%

**Electron Device Group**

## Edgar Filing: RICHARDSON ELECTRONICS LTD/DE - Form 10-Q

Net sales for EDG were \$28.7 million, up 42.4%, during the second quarter of Fiscal 2011 compared to \$20.1 million during the second quarter of fiscal 2010. This increase reflects incremental sales volume from a distribution agreement and growing demand as our customers benefit from improving economic conditions. Our products support the industrial power grid business, the semiconductor wafer fabrication equipment industry and the broadcast industry. Gross margin as a percentage of net sales decreased to 31.2% during the second quarter of fiscal 2011, as compared to 36.6% during the second quarter of fiscal 2010. The significant decline in the gross margin percentage primarily reflects the lower-margin business that was transferred to EDG under the terms of a distribution agreement. As the terms of the pricing commitments included in the distribution agreement expire, we expect EDG's gross margin percentage will improve.

**Table of Contents**

Net sales for EDG were \$56.1 million, up 44.3% during the first six months of fiscal 2011, from \$38.9 million during the first six month of fiscal 2010. This increase reflects incremental sales volume from a major distribution agreement that began in March 2010 as well as increased demand reflecting improving economic conditions. Overall demand for tubes continues to show tremendous growth across all EDG product lines. As equipment is returned to active production, we are experiencing growing demand for our products that support this equipment. Gross margin as a percentage of net sales decreased to 32.1% during the first six months of fiscal 2011, as compared to 35.0% during the first six months of fiscal 2010. The decline in our gross margin percentage primarily reflects the lower-margin business that was transferred to EDG under the terms of a distribution agreement. As these pricing commitments included in the distribution agreement expire, we expect EDG's gross margin percentage will improve.

***Canvys***

Net sales for Canvys were \$12.3 million, down 5.2%, during the second quarter of fiscal 2011 compared to \$13.0 million during the second quarter of fiscal 2010. Sales to Original Equipment Manufacturers (OEMs) were relatively flat in both North America and Europe. Sales to healthcare and digital signage customers were down significantly primarily reflecting the loss of non-repeating projects to large customers. Gross margin as a percentage of net sales for the second quarter of fiscal 2011 decreased to 23.1%, compared to 27.2% in the prior year's quarter. The lower margin percentage reflects competitive price pressure as well as the impact of the weakening US dollar. In addition, gross margin in fiscal 2011 was affected by rising inbound freight costs.

Net sales for Canvys were \$22.3 million for the first six months of fiscal 2011, compared to \$24.2 million during the first six months of fiscal 2010. Sales to digital signage and healthcare customers declined in the first half of fiscal 2011 as compared to the first half of fiscal 2010. Sales of medical imaging equipment to the healthcare industry declined as hospitals reduced their capital spending while digital signage was impacted by non-recurring projects for large customers. Sales to Original Equipment Manufacturers increased as existing customers began to increase their purchases as the economy improved. Gross margin as a percentage of net sales decreased to 23.2% during the first six months of fiscal 2011 as compared to 26.2% during the first six months of fiscal 2010 due primarily to increasing competitive pressures, rising inbound freight cost and the mix of business between customer segments.

***Selling, General, and Administrative Expenses***

Selling, general and administrative expenses ( SG&A ) were \$11.2 million for the second quarter of fiscal 2011 compared to \$10.6 million during the second quarter of fiscal 2010. The \$11.2 million and \$10.6 million during the second quarter of fiscal 2011 and fiscal 2010, respectively, reflects the SG&A that does not specifically relate to RFPD. The increase in SG&A during the second quarter of fiscal 2011 relates to start up costs for a distribution agreement. We expect these incremental start up costs to continue for the balance of fiscal 2011.

***Other (Income) Expense***

Other (income) expense was \$0.2 million of expense during the second quarter of fiscal 2011, as compared to \$0.9 million of expense during the second quarter of fiscal 2010. The decrease in expense during the second quarter of fiscal 2011 from the second quarter of fiscal 2010 was due primarily to lessened unfavorable changes in foreign currency exchange rates relative to the U.S. dollar and a reduction of interest expense related to the redemption of our 7 <sup>3</sup>/<sub>4</sub>% Notes. Other (income) expense included a foreign exchange loss of \$0.2 million during the second quarter of fiscal 2011, as compared to a foreign exchange loss of \$0.7 million during the second quarter of fiscal 2010. Our foreign exchange gains and losses are primarily due to the translation of our U.S. currency we have in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The second quarter of fiscal 2011 included interest expense of less than \$0.1 million, as compared to interest expense of \$0.3 million during the second quarter of fiscal 2010.

Other (income) expense was \$0.4 million of expense during the first six months of fiscal 2011, as compared to \$2.1 million of expense during the first six months of fiscal 2010. The decrease in expense during the first six months of fiscal 2011 from the first six months of fiscal 2010 was due primarily to lessened unfavorable changes in foreign currency

---

## **Table of Contents**

exchange rates relative to the U.S. dollar and a reduction of interest expense related to the redemption of our 7 <sup>3</sup>/<sub>4</sub>% Notes. Other (income) expense included a foreign exchange loss of \$0.3 million during the first six months of fiscal 2011, as compared to a foreign exchange loss of \$1.5 million during the first six months of fiscal 2010. Our foreign exchange gains and losses are primarily due to the translation of our U.S. currency we have in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The first six months of fiscal 2011 included interest expense of \$0.1 million, as compared to interest expense of \$0.7 million during the first six months of fiscal 2010.

### ***Income Tax Provision***

The effective income tax rate from continuing operations during the second quarter and first six months of fiscal 2011 was a tax provision of 61.6% and 39.7%, respectively, as compared to a tax benefit of 57.4% and 18.2% for the second quarter and first six months of fiscal 2010, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 35.0% and 34.0% during the second quarter of fiscal 2011 and fiscal 2010 resulted from our geographical distribution of taxable income or losses, valuation allowances in the U.S. and several foreign jurisdictions, the use of net operating losses that had a valuation allowance, and changes in foreign tax reserves from both new tax reserves and the release of tax reserves due to expiring statute of limitations. There were no changes in judgment during the quarter regarding the beginning-of-year valuation allowance which would require a benefit to be excluded from the annual effective tax rate and allocated to the interim period.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state, or local tax examinations by tax authorities for years prior to fiscal 2004. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years prior to fiscal 2003. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal 2003; in Japan, the Netherlands and Germany beginning in fiscal 2005; and in China beginning in calendar year 2005.

As a result of the Transaction to sell RFPD, we no longer consider approximately \$26.0 million of undistributed foreign earnings to be permanently reinvested in our non-U.S. subsidiaries. We currently have a valuation allowance against substantially all of our U.S. deferred tax assets. We have not provided for U.S. deferred income taxes or foreign withholding tax on the remainder of undistributed earnings from our non-U.S. subsidiaries because such earnings are considered to be permanently reinvested and it is not practicable to estimate the amount of tax that may be payable upon distribution.

As of November 27, 2010, our worldwide liability for uncertain tax positions, excluding interest and penalties, was \$3.5 million as compared to \$3.3 million as of May 29, 2010. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited condensed consolidated statements of operations and comprehensive income (loss). The net liability for uncertain tax positions increased in the three months ended November 27, 2010, primarily due to new uncertain tax positions.

It is reasonably possible that there will be a change in the unrecognized tax benefits, excluding interest and penalties, in the range of \$0 to approximately \$0.4 million due to the expiration of various statutes of limitations and uncertain tax positions being effectively settled with taxing authorities within the next 12 months.

### ***Discontinued Operations***

#### **Arrow Transaction**

On October 1, 2010, we entered into an acquisition agreement which provides that Arrow will acquire all of the assets primarily used or held for use in RFPD, as well as certain other assets, including our information technology assets, in exchange for \$210 million in cash payable at closing, subject to a post-closing working capital adjustment.

To help facilitate the transition of RFPD to Arrow Electronics, we agreed to provide certain transitional services to Arrow such as financial support services, warehouse services, and access to facilities in accordance with the terms of the Transition Services Agreement. The duration of the transitional services are expected to be less than one year from the closing date of the Transaction. Arrow also agreed to provide certain transitional services such as information technology



**Table of Contents**

services, warehouse services, and access to facilities and equipment in accordance with the terms of the Transition Services Agreement. The duration of these transitional services are also expected to be less than one year from the closing date of the Transaction, except for the information technology services which is expected to be three years. In addition, we will also enter into a Manufacturing Agreement with Arrow, in connection with the Transaction, for a term of three years. Pursuant to the Manufacturing Agreement, we will agree to manufacture and sell certain products used in the RFPD business to Arrow.

The Transition Services Agreement, which commences upon the closing of the Transaction, will allow us to exert very limited influence over RFPD's operating and financial policies. Also, the continuing cash flows related to our Transition Services Agreement as well as the Manufacturing Agreement, are insignificant. We believe it is appropriate to include the revenue and costs associated with the Transition Services Agreement that relate to financial support, certain facilities, and certain warehouse services in discontinued operations as they relate specifically to RFPD. We further believe it is appropriate to treat the revenue and costs associated with the Manufacturing Agreement in discontinued operations as it also relates specifically to RFPD.

**Honeywell Transaction**

On May 31, 2007, we completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) to Honeywell International Inc. (Honeywell). The sale agreement of SSD/Burtek to Honeywell contemplated a post-closing working capital-based purchase price adjustment. During the second quarter of fiscal 2008, we received notification from Honeywell seeking a purchase price adjustment and we issued a dispute notice in a timely manner. On December 18, 2009, we reached an agreement with Honeywell to settle the pending working capital disputes as well as other related claims. As a result, we recorded \$1.2 million of expense, net of zero tax effect, as a loss from discontinued operations, for the second quarter ended November 28, 2009.

**Financial Summary**

Net sales, gross profit, selling, general, and administrative expenses, interest expense, investment income, income tax provision, and income from discontinued operations for the three and six month periods ended November 27, 2010, and November 28, 2009, are presented in the following table (*in thousands*):

	Three Months		Six Months	
	Nov 27, 2010	Nov 28, 2009	Nov 27, 2010	Nov 28, 2009
Net sales	\$ 108,786	\$ 82,818	\$ 208,420	\$ 162,296
Gross profit	23,120	18,141	44,320	35,543
Selling, general, and administrative expenses	15,014	14,257	27,764	26,792
Interest expense	101	774	268	1,580
Investment income		(19)		(42)
Income tax provision/(benefit)	714	(267)	1,074	(366)
Income from discontinued operations, net of tax	7,291	3,396	15,214	7,579

In accordance with ASC 205-20, the allocation of interest expense to discontinued operations of other consolidated interest that is not directly attributable to or related to other operations of the entity is permitted but not required. The consolidated interest that cannot be attributable to other operations of the entity is allocated based on the ratio of net assets to be sold or discontinued to the total consolidated net assets. We appropriately allocated approximately \$0.1 million and \$0.8 million of interest expense to discontinued operations for the three months ended November 27, 2010, and November 28, 2009, respectively, using the ratio of net assets that we are selling or that become discontinued. We allocated approximately \$0.3 million and \$1.6 million of interest expense to discontinued operations for the six months ended November 27, 2010, and November 28, 2009, using the same allocation methodology.

**Table of Contents**

Assets and liabilities classified as discontinued operations on our unaudited condensed consolidated balance sheet as of November 27, 2010, and May 29, 2010, include the following (*in thousands*):

	Nov 27, 2010	May 29, 2010
Accounts receivable	\$ 91,470	\$ 78,929
Inventories	62,891	51,933
Prepaid expenses	4,385	3,076
Current deferred income taxes	2,278	2,087
Property, plant, and equipment, net	10,100	10,114
Non-current deferred income taxes	2,044	2,030
<b>Discontinued Operations - Assets</b>	<b>\$ 173,168</b>	<b>\$ 148,169</b>
Accounts payable	\$ 49,997	\$ 43,549
Accrued liabilities	10,005	8,770
Long-term income tax liabilities	3,265	3,221
Other non-current liabilities	988	1,047
<b>Discontinued Operations - Liabilities</b>	<b>\$ 64,255</b>	<b>\$ 56,587</b>

Included in discontinued operations above are assets and liabilities held for sale in connection with the sale of RFPD to Arrow as follows (*in thousands*):

	Nov 27, 2010	May 29, 2010
Accounts receivable	\$ 85,558	\$ 70,605
Inventories	62,050	50,923
Property, plant and equipment, net	10,100	10,114
<b>Total assets held for sale</b>	<b>\$ 157,708</b>	<b>\$ 131,642</b>
Accounts payable	\$ 47,641	\$ 41,877
<b>Total liabilities held for sale</b>	<b>\$ 47,641</b>	<b>\$ 41,877</b>

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. We currently do not have cash balances that are specific to RFPD and as a result, we believe that the appropriate presentation would be to not separate cash flows from discontinued operations on our statement of cash flows.

**Net Income and Per Share Data**

Net income during the second quarter of fiscal 2011 was \$7.5 million, or \$0.41 per diluted common share and \$0.38 per Class B diluted common share, as compared to net income of \$3.1 million during the second quarter of fiscal 2010, or \$0.18 per diluted common share and \$0.16 per Class B diluted common share.

Net income during the first six months of fiscal 2011 was \$15.8 million, or \$0.87 per diluted common share and \$0.80 per Class B diluted common share, as compared to net income of \$5.0 million during the first six months of fiscal 2010, or \$0.28 per diluted common share and \$0.26 per Class B diluted common share.

**LIQUIDITY, FINANCIAL POSITION, AND CAPITAL RESOURCES**

Our growth and cash needs have been primarily financed through income from operations and borrowings under our revolving credit facility. Cash and cash equivalents for the second quarter ended November 27, 2010 were \$33.0 million and our borrowings under our credit facility were \$18.0 million. This compares to cash and cash equivalents of \$29.0 million



---

**Table of Contents**

and borrowings of \$19.5 million as of May 29, 2010. Liquidity under our revolving credit facility is primarily available to fund our working capital requirements and support capital expenditures. As a result of accounting for RFPD as a discontinued operation, we anticipate that cash flow from operating activities will continue to be a source of cash. While net income will significantly decline as a result of the sale, our working capital and capital spending requirements will also significantly decline.

***Cash Flows from Discontinued Operations***

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. We currently do not have cash balances that are specific to RFPD and as a result, we believe that the appropriate presentation would be to not separate cash flows from discontinued operations on our statement of cash flows.

Given our cash position and access to additional capital through our revolving credit facility, we believe we will continue to have sufficient liquidity to meet the needs of the business through the closing date of the Transaction. Upon completion of the Transaction, we will receive after tax proceeds of approximately \$180 to \$185 million in cash. As a result, we believe we will have sufficient liquidity and flexibility to fund our growth initiatives. We also believe our working capital requirements and the need for capital expenditures will be minimal for the remainder of this fiscal year.

***Cash Flows from Operating Activities***

Cash provided by operating activities, including our discontinued operations, during the first six months of fiscal 2011 was \$3.2 million. The \$3.2 million of cash provided by operating activities includes increases in accounts receivable and inventory partially offset by increases in accounts payable and accrued liabilities. The increase in accounts receivable of \$11.2 million, excluding the impact of foreign exchange of \$3.5 million, was due primarily to increased sales volume during the first six months of fiscal 2011. The increase in inventory of \$10.0 million, excluding the impact of foreign currency exchange of \$0.6 million, during the first six months of fiscal 2011 was due primarily to increased purchasing to support future sales growth. The increase in accrued liabilities of \$2.0 million, excluding the impact of foreign currency exchange of \$0.6 million, during the first six months of fiscal 2011 was due primarily to the timing of payments. The increase in accounts payable balances of \$6.7 million, excluding the impact of foreign currency exchange of \$0.5 million, during the first six months of fiscal 2011 was due primarily to the timing of payments as well as the increase in inventory purchases.

Cash provided by operating activities, including our discontinued operations, during the first six months of fiscal 2010 was \$4.7 million. The \$4.7 million of cash provided by operating activities includes a decrease in receivables, inventory, and accounts payable. The decline in inventory of \$5.9 million, excluding the impact of foreign currency exchange of \$1.8 million, during the first six months of fiscal 2010 was due primarily to a reduction in inventory purchases due to the decrease in sales volume. The decline in accounts receivable balances of \$1.0 million, excluding the impact of foreign currency exchange of \$3.0 million, during the first six months of fiscal 2010 was due primarily to focused cash collection efforts as well as decreased sales volume. The decline in accounts payable balances of \$8.7 million, excluding the impact of foreign currency exchange of \$0.5 million, during the first six months of fiscal 2010 was due primarily to the timing of payments and a decline in inventory purchases due to declining sales.

***Cash Flows from Investing Activities***

Net cash used in investing activities, including our discontinued operations, of \$0.5 million during the first six months of fiscal 2011 was due primarily to \$0.5 million of capital expenditures. Net cash used in investing activities, including our discontinued operations, of \$0.5 million during the first six months of fiscal 2010 was also due primarily to capital expenditures.

---

## **Table of Contents**

### ***Cash Flows from Financing Activities***

Net cash used in financing activities, including discontinued operations, of \$0.6 million during the first six months of fiscal 2011 was due primarily to borrowings on our credit agreement and proceeds from the issuance of common stock, partially offset by the redemption of our 7 3/4% Notes and cash dividends paid. Net cash used in financing activities, including discontinued operations, of \$0.7 million during the first six months of fiscal 2010 was due to primarily to cash dividends paid.

Dividend payments for the first six months of fiscal 2011 were approximately \$0.7 million. All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions, and such other factors that the Board may deem relevant. Our Board of Directors paid a quarterly dividend of \$0.02 per common share and \$0.018 per Class B common share during the second quarter of fiscal 2011.

As of November 27, 2010, we maintained \$18.0 million of short term debt on our credit agreement. On June 11, 2010, we redeemed all \$19.5 million of the aggregate outstanding principal amount of our 7 3/4% Notes, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. See Note 7 Debt of our unaudited condensed consolidated financial statements for further discussion on the redemption.

We believe that the existing sources of liquidity, including current cash, cash to be provided by operating activities, and cash proceeds from the Transaction, supplemented as necessary with funds available under our credit arrangements, will provide sufficient resources to meet known capital requirements and working capital needs for the fiscal year ending May 28, 2011.

### **Updates to Critical Accounting Policies and Estimates**

**Inventories:** Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Inventories include material, labor, and overhead associated with such inventories. Substantially all inventories represent finished goods held for sale.

We do not anticipate any material risks or uncertainties related to possible inventory write-downs for the remainder of our fiscal 2011, ending May 28, 2011.

**Revenue Recognition:** Our product sales are recognized as revenue upon shipment, when title passes to the customer, when delivery has occurred or services have been rendered, and when collectability is reasonably assured. Our sales are recorded net of discounts and returns based on our historical experience. Our products are often manufactured to meet the specific design needs of our customers' applications. Our engineers work closely with customers to ensure that our products will meet their needs. Our customers are under no obligation to compensate us for designing the products we sell.

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

We have also concluded that, in the limited cases where remaining obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory. This conclusion was reached based on the following facts: the timing of any remaining obligation is agreed upon with the customer, which in most cases, is performed immediately after the delivery of the product; the cost and time involved to complete the remaining obligation is minimal, the costs and time do not vary significantly; we have a demonstrated history of completing the remaining obligations timely; and finally, failure to complete the remaining obligation does not enable the customer to receive a full or partial refund of the product or the service.

**Discontinued Operations:** In accordance with ASC 205-20, *Presentation of Financial Statements- Discontinued Operations* ( ASC 205-20 ), we reported the results of RFPD as a discontinued operation. The application of ASC 205-20 is discussed in Note 4 Discontinued Operations of our notes to unaudited condensed consolidated financial statements for additional discussion on the sale of our RFPD segment.

## **Table of Contents**

**Loss Contingencies:** We accrue a liability for loss contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. If we determine that there is at least a reasonable possibility that a loss may have been incurred, we will include a disclosure describing the contingency.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** **Risk Management and Market Sensitive Financial Instruments**

We are exposed to various market risks. The primary financial risks include foreign currency exchange risks, as certain operations, assets, and liabilities of ours are denominated in foreign currencies, and fluctuations in interest rates, as some of our debt financing varies with market rates. We manage these risks through normal operating and financing activities.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates and interest rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item IA, Risk Factors of our Annual Report on Form 10-K for the year ended May 29, 2010

#### **Foreign Currency Exposure**

Even though we take into account current foreign currency exchange rates at the time an order is taken, our financial statements denominated in a non-U.S. functional currency are subject to foreign exchange rate fluctuations.

Our foreign denominated assets and liabilities are cash, accounts receivable, inventory, accounts payable, and intercompany receivables and payables, as we conduct business in countries of the European Union, Asia/Pacific and, to a lesser extent, Canada and Latin America. We could manage foreign exchange exposures by using currency clauses in sales contracts, local debt to offset asset exposures, and forward contracts to hedge significant transactions. We have not entered into any forward contracts in fiscal 2011 or fiscal 2010.

## **Table of Contents**

### **Interest Expense Exposure**

Our credit agreement's interest rates vary based on market interest rates. Our interest expense of \$0.1 million as of November 27, 2010, positions us with an immaterial risk related to varying market rates.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of November 27, 2010.

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

#### **(b) Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the second quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are involved in legal actions that arise in the ordinary course of business. It is the opinion of management that the resolution of any current pending litigation will not have a material adverse effect on our financial position or results of operations.

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended May 29, 2010, and in our Proxy Statement on Schedule 14A filed with the Security and Exchange Commission on December 21, 2010.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
August 29, 2010 - November 27, 2010 (1)		\$		500,000
August 29, 2010 - November 27, 2010	15,400	\$ 10.48	15,400	484,600

- (1) On October 5, 2010, our Board of Directors approved a share repurchase authorizing us to purchase up to 500,000 shares of our outstanding common stock. Stock repurchases may be on the open market or in privately negotiated transactions, depending on factors including market conditions and other factors.

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

On January 5, 2011, we issued a press release reporting results for our second quarter and first six months ended November 27, 2010, and the declaration of a cash dividend. A copy of the press release is furnished as Exhibit 99.1 to this Form 10-Q and incorporated by reference herein.

**ITEM 6. EXHIBITS**

See exhibit index which is incorporated by reference herein.

**Table of Contents**

**SIGNATURES**

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

RICHARDSON ELECTRONICS, LTD.

Date: January 6, 2011

By: /s/ Kathleen S. Dvorak

Kathleen S. Dvorak  
Chief Financial Officer

(on behalf of the Registrant and  
as Principal Financial Officer)

**Table of Contents**

**Exhibit Index**

(c) **EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of the Company, incorporated by reference to Appendix B to the Proxy Statement / Prospectus dated November 13, 1986, incorporated by reference to the Company's Registration Statement on Form S-4.
3.2	Amended and Restated By-Laws of the Company, incorporated by reference to Exhibit 3.2 on the Company's Report of Form 10-Q for the quarterly period ended August 29, 2009.
31.1	Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
31.2	Certification of Kathleen S. Dvorak pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
99.1	Press release, dated January 5, 2011.