

RICHARDSON ELECTRONICS LTD/DE

Form 10-Q

April 11, 2013

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 March 2, 2013

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.

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

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2096643
(I.R.S. Employer
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 April 8, 2013, there were outstanding 12,297,332 shares of Common Stock, \$0.05 par value and 2,739,569 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

	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	2
<u>Consolidated Balance Sheets</u>	2
<u>Unaudited Consolidated Statements of Comprehensive Income</u>	3
<u>Unaudited Consolidated Statements of Cash Flows</u>	4
<u>Unaudited Consolidated Statement of Stockholders' Equity</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
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>	27
Item 4. <u>Controls and Procedures</u>	28
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 5. <u>Other Information</u>	28
Item 6. <u>Exhibits</u>	28
<u>Signatures</u>	29
<u>Exhibit Index</u>	30

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

	Unaudited March 2, 2013	Audited June 2, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 77,023	\$ 43,893
Accounts receivable, less allowance of \$1,067 and \$1,058	19,748	19,727
Inventories	34,832	34,675
Prepaid expenses and other assets	1,165	806
Deferred income taxes	2,002	2,095
Income tax receivable	6,800	6,572
Investments current	63,573	105,009
Discontinued operations assets	379	514
Total current assets	205,522	213,291
Non-current assets:		
Property, plant and equipment, net	4,731	4,375
Goodwill	2,215	1,261
Other intangibles	247	355
Non-current deferred income taxes	1,437	1,458
Investments non-current	7,147	10,683
Total non-current assets	15,777	18,132
Total assets	\$ 221,299	\$ 231,423
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 13,002	\$ 12,611
Accrued liabilities	7,770	8,466
Discontinued operations liabilities	831	253
Total current liabilities	21,603	21,330
Non-current liabilities:		
Long-term income tax liabilities	7,057	7,306
Other non-current liabilities	1,343	1,213
Discontinued operations non-current liabilities	1,461	1,361
Total non-current liabilities	9,861	9,880

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

Total liabilities	31,464	31,210
Commitments and contingencies		
Stockholders equity		
Common stock, \$0.05 par value; issued 12,297 shares at March 2, 2013, and 13,074 shares at June 2, 2012	611	654
Class B common stock, convertible, \$0.05 par value; issued 2,740 shares at March 2, 2013 and 2,920 shares at June 2, 2012	141	146
Preferred stock, \$1.00 par value, no shares issued		
Additional paid-in-capital	77,069	88,217
Common stock in treasury, at cost, -0- shares at March 2, 2013, and 18 shares at June 2, 2012		(216)
Retained earnings	102,883	104,139
Accumulated other comprehensive income	9,131	7,273
Total stockholders equity	189,835	200,213
Total liabilities and stockholders equity	\$ 221,299	\$ 231,423

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

	Three Months Ended		Nine Months Ended	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
Net sales	\$ 33,630	\$ 38,330	\$ 105,883	\$ 118,979
Cost of sales	23,720	27,033	74,585	83,290
Gross profit	9,910	11,297	31,298	35,689
Selling, general, and administrative expenses	9,318	9,457	29,695	30,202
Loss on disposal of assets		(3)	(2)	(73)
Operating income	592	1,843	1,605	5,560
Other (income) expense:				
Investment/interest income	(260)	(357)	(995)	(1,003)
Foreign exchange (gain) loss	460	(19)	720	276
Other, net	3	(8)	(62)	(9)
Total other (income) expense	203	(384)	(337)	(736)
Income from continuing operations before income taxes	389	2,227	1,942	6,296
Income tax provision (benefit)	(197)	636	41	2,047
Income from continuing operations	586	1,591	1,901	4,249
Income (loss) from discontinued operations	(182)	(252)	(472)	1,551
Net income	404	1,339	1,429	\$ 5,800
Foreign currency translation gain (loss), net of tax	(103)	(23)	1,844	(1,228)
Fair value adjustments on investments	9	32	14	(19)
Comprehensive income	\$ 310	\$ 1,348	\$ 3,287	\$ 4,553
<u>Net income per Common share Basic:</u>				
Income from continuing operations	\$ 0.04	\$ 0.10	\$ 0.13	\$ 0.25
Income (loss) from discontinued operations	(0.01)	(0.02)	(0.03)	0.09
Total net income per Common share Basic:	\$ 0.03	\$ 0.08	\$ 0.10	\$ 0.34
<u>Net income per Class B common share Basic:</u>				
Income from continuing operations	\$ 0.04	\$ 0.09	\$ 0.11	\$ 0.23
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)	0.08
Total net income per Class B common share Basic:	\$ 0.03	\$ 0.08	\$ 0.08	\$ 0.31
<u>Net income per Common share Diluted:</u>				
Income from continuing operations	\$ 0.04	\$ 0.09	\$ 0.12	\$ 0.25

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

Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)	0.09
Total net income per Common share Diluted:	\$ 0.03	\$ 0.08	\$ 0.09	\$ 0.34
Net income per Class B common share Diluted:				
Income from continuing operations	\$ 0.04	\$ 0.09	\$ 0.11	\$ 0.23
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.03)	0.08
Total net income per Class B common share Diluted:	\$ 0.03	\$ 0.08	\$ 0.08	\$ 0.31
Weighted average number of shares:				
Common shares Basic	12,292	13,988	12,500	14,134
Class B common shares Basic	2,740	2,940	2,822	2,944
Common shares Diluted	15,165	17,050	15,455	17,244
Class B common shares Diluted	2,740	2,940	2,822	2,944
Dividends per common share	\$ 0.060	\$ 0.050	\$ 0.180	\$ 0.150
Dividends per Class B common share	\$ 0.054	\$ 0.045	\$ 0.162	\$ 0.135

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

	Three Months Ended		Nine Months Ended	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
Operating activities:				
Net income	\$ 404	\$ 1,339	\$ 1,429	\$ 5,800
Adjustments to reconcile net income to cash provided by (used in) operating activities:				
Depreciation and amortization	218	256	783	820
(Gain) loss on sale of investments	(5)	10	(26)	11
(Gain) loss on disposal of assets	18	(3)	16	(73)
Stock compensation expense	81	131	413	393
Change in assets and liabilities, net of effects of acquired businesses:				
Deferred income taxes	(8)	450	(16)	2,265
Accounts receivable	1,881	(690)	477	(754)
Income tax receivable	(419)	774	(228)	(4,810)
Inventories	452	(2,683)	2,167	(8,275)
Prepaid expenses and other assets	102	162	(324)	8,588
Accounts payable	(979)	(144)	255	(3,228)
Accrued liabilities	(95)	(6,664)	(295)	(49,530)
Long-term income tax liabilities	191	1,634	(126)	(5,381)
Other	158	(138)	348	1,610
Net cash provided by (used in) operating activities	1,999	(5,566)	4,873	(52,564)
Investing activities:				
Cash consideration paid for acquired businesses			(2,557)	(2,297)
Capital expenditures	(512)	(8)	(1,069)	(82)
Proceeds from sale of assets		4	4	20
Proceeds from maturity of investments	30,032	116,385	127,542	318,767
Purchases of investments	(6,959)	(109,642)	(82,521)	(394,804)
Proceeds from sales of available-for-sale securities	24	62	161	183
Purchases of available-for-sale securities	(24)	(62)	(161)	(183)
Other		(33)		18
Net cash provided by (used in) investing activities	22,561	6,706	41,399	(78,378)
Financing activities:				
Repurchase of common stock		(1,196)	(11,550)	(13,084)
Proceeds from issuance of common stock	65	298	148	660
Cash dividends paid	(886)	(830)	(2,685)	(2,508)
Other		3		6
Net cash used in financing activities	(821)	(1,725)	(14,087)	(14,926)
Effect of exchange rate changes on cash and cash equivalents	(234)	(167)	945	(677)
Increase/ (decrease) in cash and cash equivalents	23,505	(752)	33,130	(146,545)
Cash and cash equivalents at beginning of period	53,518	25,182	43,893	170,975

Cash and cash equivalents at end of period	\$ 77,023	\$ 24,430	\$ 77,023	\$ 24,430
---	-----------	-----------	-----------	-----------

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

	Common	Class B Common	Par Value	Additional Paid In Capital	Common Stock in Treasury	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance June 2, 2012:	13,074	2,920	\$ 800	\$ 88,217	\$ (216)	\$ 104,139	\$ 7,273	\$ 200,213
Net income						1,429		1,429
Foreign currency translation							1,844	1,844
Fair value adjustments on investments							14	14
Share-based compensation:								
Stock options				422				422
Common stock:								
Options exercised	26		1	146				147
Cancelled shares		(105)						
Repurchase of common stock					(11,549)			(11,549)
Treasury stock	(908)	(75)	(49)	(11,717)	11,766			
Other	105			1	(1)			
Dividends paid								
Common (\$0.12 per share)						(2,233)		(2,233)
Class B (\$0.108 per share)						(452)		(452)
Balance March 2, 2013:	12,297	2,740	\$ 752	\$ 77,069	\$	\$ 102,883	\$ 9,131	\$ 189,835

Table of Contents

RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. (we , us , the Company , and our) is incorporated in the state of Delaware. We are a leading global provider of engineered solutions, power grid and microwave tubes and related components, and customized display solutions, serving customers in the alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. Our strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair.

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

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for \$238.8 million, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of \$4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a working capital adjustment of \$0.2 million related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. This acquisition positions us to provide cost-effective service of microwave and power grid tube equipment for communications, industrial, military, and medical users around the world.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (D and C) for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the commercial, broadcast, medical, industrial, scientific, and military markets. This acquisition provides us with access to additional product lines, vendors, and customers.

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

Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO₂ laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

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

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

Table of Contents

2. BASIS OF PRESENTATION

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

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The first nine months of fiscal 2013 and 2012 contained 39 and 40 weeks, respectively.

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. The results of our operations for the three and nine months ended March 2, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending June 1, 2013.

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 June 2, 2012, that we filed on July 27, 2012.

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. Our inventories included approximately \$32.4 million of finished goods and \$2.4 million of raw materials and work-in-progress as of March 2, 2013, as compared to approximately \$31.8 million of finished goods and \$2.9 million of raw materials and work-in-progress as of June 2, 2012.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs.

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

In the limited cases where remaining performance obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory and is not essential to the functionality of the delivered product. 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 insignificant in relation to the item sold, and 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 service, and the timing of the payment for the product is not contingent upon completion of remaining performance obligations, if any.

Discontinued Operations: In accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements-Discontinued Operations* (ASC 205-20), we reported the financial results of RFPD as a discontinued operation. Refer to Note 4 *Discontinued Operations* of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

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

Goodwill and Other Intangible Assets: Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicate that impairment may have occurred, such as a significant adverse change in the business climate, loss of personnel or a decision to sell or dispose of a reporting unit. As of March 2, 2013, our goodwill balance was \$2.2 million and represents the premium we paid for Powerlink of \$1.4 million during the second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of \$0.9 million during the second quarter of fiscal 2013.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the last day of our third quarter as the measurement date. In accordance with ASC 350 *Intangibles Goodwill and Other* (ASC 350), if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period the loss was identified.

During the fourth quarter of fiscal 2012, we adopted Accounting Standards Update (ASU) 2011-08 which allows a company the option to perform a qualitative evaluation about the likelihood of goodwill impairment to determine whether it must then calculate the fair value of an operating segment. We applied this qualitative approach to our EDG operating segment and concluded that indications of impairment were not present as of June 2, 2012. The qualitative factors considered included macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and other relevant entity or reporting unit specific events.

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

Our intangible assets represent the fair value that we determined for customer relationships acquired in connection with the acquisition of Powerlink during the second quarter of our fiscal year 2012. The fair value was based upon discounted cash flows that the customer relationships are expected to generate over the next twenty years.

4. DISCONTINUED OPERATIONS**Arrow Transaction**

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for \$238.8 million, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of \$4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the working capital adjustment.

Financial Summary Discontinued Operations

Summary financial results for the three and nine months ended March 2, 2013, and March 3, 2012, are presented in the following table (*in thousands*):

	Three Months		Nine Months	
	Mar 2, 2013	Mar 3, 2012	Mar 2, 2013	Mar 3, 2012
Net sales	\$ (33)	\$ 840	\$ 466	\$ 2,532
Gross profit (loss)	(297)	(44)	(518)	(418)
Selling, general, and administrative expenses	231	377	497	(71)
Additional gain on sale				(266)
Income tax provision (benefit)	(346)	(169)	(543)	(1,632)
Income (loss) from discontinued operations, net of tax	\$ (182)	\$ (252)	\$ (472)	\$ 1,551

Table of Contents

Net sales and gross profit (loss) for the three and nine months ended March 2, 2013, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction. Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products. Net sales for the third quarter ended March 2, 2013, reflect a return of inventory from RFPD of approximately \$0.1 million. There was also an income tax benefit of \$0.3 million recorded during the quarter, reflecting the tax benefit related to the loss from discontinued operations as well as a tax refund from one of our foreign subsidiaries.

Assets and liabilities classified as discontinued operations on our consolidated balance sheets as of March 2, 2013, and June 2, 2012, include the following (*in thousands*):

	Mar 2, 2013	(Audited) Jun 2, 2012
Inventories	\$ 379	\$ 503
Prepaid expenses and other assets		11
Discontinued operations Assets	\$ 379	\$ 514
Accrued liabilities current ⁽¹⁾	\$ 831	\$ 253
Long-term income tax liabilities ⁽²⁾	1,461	1,361
Discontinued operations Liabilities	\$ 2,292	\$ 1,614

(1) Included in accrued liabilities as of March 2, 2013, is a payable to Arrow for transition services of \$2.4 million, offset by a receivable due to us from Arrow for transition services of \$1.6 million.

(2) Included in long-term income tax liabilities as of March 2, 2013, is the reserve for uncertain tax positions.

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. Cash flows related to our discontinued operations are not material.

5. ACQUISITIONS

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a \$0.2 million adjustment related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. This acquisition positions us to provide cost-effective service of microwave and power grid tube equipment for communications, industrial, military and medical users around the world.

The allocation of the final purchase price, recorded during the second quarter of fiscal 2012, included \$0.4 million of trade receivables, \$0.2 million of inventory, \$0.4 million of other intangibles, and \$1.4 million of goodwill. The goodwill represents the excess of purchase price over the fair market value of the identifiable net assets we acquired. Pro forma financial information is not presented due to immateriality.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (D and C) for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the commercial, broadcast, medical, industrial, scientific, and military markets. This acquisition provides us with access to additional product lines, vendors, and customers.

The allocation of the preliminary purchase price, recorded during the second quarter of fiscal 2013, included \$0.2 million of trade receivables, \$1.5 million of inventory, and \$0.9 million of goodwill. The purchase price is preliminary and subject to change based on the completion of a valuation of the respective assets, which include intangible assets, and liabilities. Pro forma financial information is not presented due to immateriality.

Table of Contents**6. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicates an impairment may be occurred, such as a significant adverse change in the business climate, loss of key personnel, or a decision to sell or dispose of a reporting unit. As of March 2, 2013, our goodwill balance was \$2.2 million and represents the premium we paid for Powerlink of \$1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of \$0.9 million during our second quarter of fiscal 2013.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the last day of our third quarter as the measurement date. In accordance with ASC 350, if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period identified.

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

	Powerlink	D and C	TOTAL
Balance at June 2, 2012	\$ 1,261	\$	\$ 1,261
Premium Paid for D and C Acquisition		931	931
Foreign currency translation	23		23
Balance at March 2, 2013	\$ 1,284	\$ 931	\$ 2,215

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

Our intangible assets represent the fair value for customer relationships acquired in connection with the acquisition of Powerlink during the second quarter of our fiscal year 2012.

Intangible assets subject to amortization as well as amortization expense are as follows (*in thousands*):

	Intangible Assets Subject to Amortization as of	
	Mar 2, 2013	June 2, 2012
Gross Amounts:		
Customer Relationship	\$ 335	\$ 363
Foreign currency translation	(22)	
Total Gross Amounts	\$ 313	\$ 363
Accumulated Amortization:		
Customer Relationship	\$ 66	\$ 8
Total Accumulated Amortization	\$ 66	\$ 8

Table of Contents

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

Fiscal Year	Amortization Expense
Remaining fiscal 2013	\$ 10
2014	\$ 34
2015	\$ 30
2016	\$ 25
2017	\$ 16
Thereafter	\$ 131

The weighted average number of years of amortization expense remaining is 13.79.

7. INVESTMENTS

As of March 2, 2013, we had approximately \$70.3 million invested in time deposits and certificate of deposits (CD). Of this, \$63.6 million mature in less than twelve months and \$6.7 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

As of June 2, 2012, we had approximately \$115.3 million invested in time deposits and CD s. Of this, \$105.0 million mature in less than twelve months and \$10.3 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD,

We also have investments in equity securities, all of which are classified as available-for-sale and are carried at their fair value based on quoted market prices. Our investments, which are included in non-current assets, had a carrying amount of \$0.4 million as of March 2, 2013, and as of June 2, 2012. Proceeds from the sale of securities were less than \$0.1 million during the third quarter and \$0.2 million for the first nine months of fiscal 2013. Proceeds from the sale of securities were \$0.1 million during the third quarter of fiscal 2012 and \$0.2 million for the first nine months of fiscal 2012. We reinvested proceeds from the sale of securities, and the cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than \$0.1 million during the third quarter and first nine months of fiscal 2013 and fiscal 2012. Net unrealized holding losses of less than \$0.1 million during the third quarter and first nine months of fiscal 2013 and fiscal 2012, have been included in accumulated other comprehensive income.

8. 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. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves were approximately \$0.2 million as of March 2, 2013, and \$0.1 million as of June 2, 2012.

Table of Contents**9. 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 nine months of fiscal 2013 was \$1.1 million compared to \$1.2 million during the first nine months of fiscal 2012. Under the terms of the Transaction, Arrow assumed many of our facility leases and we are sub-leasing space from Arrow. Our future minimum lease commitments, including common area maintenance charges and property taxes during the remainder of fiscal 2013 and the next four years have been adjusted to reflect the Transaction as follows (*in thousands*):

Fiscal Year	Payments
Remaining Fiscal 2013	\$ 357
2014	\$ 1,289
2015	\$ 975
2016	\$ 643
2017	\$ 94
Thereafter	\$
Total	\$ 3,358

10. INCOME TAXES

The effective income tax rate from continuing operations during the first nine months of fiscal 2013 was 2.1%, as compared to 32.5% during the first nine months of fiscal 2012. The decrease in rate during the first nine months of fiscal 2013, as compared to fiscal 2012, was due to the decrease in available cash in foreign jurisdictions to distribute unremitted foreign earnings with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*. The effective rate as compared to the federal statutory rate of 34.0% resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, in addition to our position with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*.

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, or non-U.S. tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal year 2011. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany and the Netherlands beginning in fiscal 2007.

As of March 2, 2013, approximately \$37.2 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of March 2, 2013, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of June 2, 2012. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is reasonably possible that there will be a change in the unrecognized tax benefits related to continuing and discontinued operations, excluding interest and penalties, in the range of \$0 to approximately \$0.3 million and in the range of \$0 to approximately \$1.3 million, respectively, due to the expiration of various statutes of limitations and closing of examinations within the next 12 months.

Table of Contents

11. 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 Class A common stock cash dividends.

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

Table of Contents

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

	Three Months Ended			
	March 2, 2013		March 3, 2012	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
Income from continuing operations	\$ 586	\$ 586	\$ 1,591	\$ 1,591
Less dividends:				
Common stock	738	738	698	698
Class B common stock	148	148	132	132
Undistributed earnings (losses)	\$ (300)	\$ (300)	\$ 761	\$ 761
Common stock undistributed earnings (losses)	\$ (250)	\$ (250)	\$ 640	\$ 640
Class B common stock undistributed earnings (losses)	(50)	(50)	121	121
Total undistributed earnings (losses)	\$ (300)	\$ (300)	\$ 761	\$ 761
Loss from discontinued operations	\$ (182)	\$ (182)	\$ (252)	\$ (252)
Less dividends:				
Common stock	738	738	698	698
Class B common stock	148	148	132	132
Undistributed losses	\$ (1,068)	\$ (1,068)	\$ (1,082)	\$ (1,082)
Common stock undistributed losses	\$ (890)	\$ (891)	\$ (909)	\$ (911)
Class B common stock undistributed losses	(178)	(177)	(173)	(171)
Total undistributed losses	\$ (1,068)	\$ (1,068)	\$ (1,082)	\$ (1,082)
Net income	\$ 404	\$ 404	\$ 1,339	\$ 1,339
Less dividends:				
Common stock	738	738	698	698
Class B common stock	148	148	132	132
Undistributed earnings (losses)	\$ (482)	\$ (482)	\$ 509	\$ 509
Common stock undistributed earnings (losses)	\$ (401)	\$ (402)	\$ 428	\$ 428
Class B common stock undistributed earnings (losses)	(81)	(80)	81	81
Total undistributed earnings (losses)	\$ (482)	\$ (482)	\$ 509	\$ 509
<i>Denominator for basic and diluted EPS:</i>				
Common stock weighted average shares	12,292	12,292	13,988	13,988
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	2,740	2,740	2,940	2,940
Effect of dilutive securities				
Dilutive stock options		133		122
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		15,165		17,050

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

Income from continuing operations per share:

Common stock	\$ 0.04	\$ 0.04	\$ 0.10	\$ 0.09
--------------	---------	---------	---------	---------

Class B common stock	\$ 0.04	\$ 0.04	\$ 0.09	\$ 0.09
----------------------	---------	---------	---------	---------

Loss from discontinued operations per share:

Common stock	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
--------------	-----------	-----------	-----------	-----------

Class B common stock	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
----------------------	-----------	-----------	-----------	-----------

Net income per share:

Common stock	\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.08
--------------	---------	---------	---------	---------

Class B common stock	\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.08
----------------------	---------	---------	---------	---------

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the third quarter of fiscal 2013 and fiscal 2012 were 282,564 and 274,564, respectively.

Table of Contents

	Nine Months Ended			
	March 2, 2013		March 3, 2012	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
Income from continuing operations	\$ 1,901	\$ 1,901	\$ 4,249	\$ 4,249
Less dividends:				
Common stock	2,233	2,233	2,111	2,111
Class B common stock	452	452	397	397
Undistributed earnings (losses)	\$ (784)	\$ (784)	\$ 1,741	\$ 1,741
Common stock undistributed earnings (losses)	\$ (652)	\$ (653)	\$ 1,466	\$ 1,468
Class B common stock undistributed earnings (losses)	(132)	(131)	275	273
Total undistributed earnings (losses)	\$ (784)	\$ (784)	\$ 1,741	\$ 1,741
Income (loss) from discontinued operations	\$ (472)	\$ (472)	\$ 1,551	\$ 1,551
Less dividends:				
Common stock	2,233	2,233	2,111	2,111
Class B common stock	452	452	397	397
Undistributed losses	\$ (3,157)	\$ (3,157)	\$ (957)	\$ (957)
Common stock undistributed losses	\$ (2,624)	\$ (2,629)	\$ (806)	\$ (807)
Class B common stock undistributed losses	(533)	(528)	(151)	(150)
Total undistributed losses	\$ (3,157)	\$ (3,157)	\$ (957)	\$ (957)
Net income	\$ 1,429	\$ 1,429	\$ 5,800	\$ 5,800
Less dividends:				
Common stock	2,233	2,233	2,111	2,111
Class B common stock	452	452	397	397
Undistributed earnings (losses)	\$ (1,256)	\$ (1,256)	\$ 3,292	\$ 3,292
Common stock undistributed earnings (losses)	\$ (1,044)	\$ (1,046)	\$ 2,771	\$ 2,776
Class B common stock undistributed earnings (losses)	(212)	(210)	521	516
Total undistributed earnings (losses)	\$ (1,256)	\$ (1,256)	\$ 3,292	\$ 3,292
<i>Denominator for basic and diluted EPS:</i>				
Common stock weighted average shares	12,500	12,500	14,134	14,134
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	2,822	2,822	2,944	2,944
Effect of dilutive securities				
Dilutive stock options		133		166
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		15,455		17,244
Income from continuing operations per share:				
Common stock	\$ 0.13	\$ 0.12	\$ 0.25	\$ 0.25
Class B common stock	\$ 0.11	\$ 0.11	\$ 0.23	\$ 0.23

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

Income (loss) from discontinued operations per share:				
Common stock	\$ (0.03)	\$ (0.03)	\$ 0.09	\$ 0.09
Class B common stock	\$ (0.03)	\$ (0.03)	\$ 0.08	\$ 0.08
Net income per share:				
Common stock	\$ 0.10	\$ 0.09	\$ 0.34	\$ 0.34
Class B common stock	\$ 0.08	\$ 0.08	\$ 0.31	\$ 0.31

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first nine months of fiscal 2013 and fiscal 2012 were 282,564 and 161,000, respectively.

Table of Contents**12. SEGMENT REPORTING**

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

EDG provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO₂ laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

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

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

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

	Three Months Ended		Nine Months Ended	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
EDG				
Net Sales	\$ 24,333	\$ 26,867	\$ 76,146	\$ 85,618
Gross Profit	\$ 7,407	\$ 8,085	\$ 23,337	\$ 26,302
Canvys				
Net Sales	\$ 9,297	\$ 11,463	\$ 29,737	\$ 33,361
Gross Profit	\$ 2,503	\$ 3,212	\$ 7,961	\$ 9,387

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

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

	Three Months Ended		Nine Months Ended	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
Net Sales				
North America	\$ 15,531	\$ 17,055	\$ 47,733	\$ 50,662
Asia/Pacific	4,878	5,852	16,651	19,904
Europe	11,010	12,682	34,190	39,469
Latin America	2,210	2,444	6,976	7,557
Other		297	333	1,387
Total	\$ 33,630	\$ 38,330	\$ 105,883	\$ 118,979
Gross Profit				
North America	\$ 4,398	\$ 5,577	\$ 14,071	\$ 16,288
Asia/Pacific	1,642	2,151	5,338	7,088
Europe	3,143	4,003	9,651	12,528
Latin America	731	992	2,225	2,909
Other	(4)	(1,426)	14	(3,124)
Total	\$ 9,910	\$ 11,297	\$ 31,298	\$ 35,689

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

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.

14. 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 March 2, 2013, we held investments that are required to be measured at fair value on a recurring basis. Our investments consist of time deposits and CDs, where face value is equal to fair value, and equity securities of publicly traded companies for which market prices are readily available.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of March 2, 2013, and June 2, 2012, were as follows (*in thousands*):

	Level 1	Level 2	Level 3
<u>March 2, 2013</u>			
Time deposits/CDs	\$ 70,297	\$	\$
Equity securities	423		
Total	\$ 70,720	\$	\$
<u>June 2, 2012</u>			
Time deposits/CDs	\$ 115,318	\$	\$
Equity securities	374		
Total	\$ 115,692	\$	\$

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 filed on July 27, 2012, and in the Company's Proxy Statement on Schedule 14A filed on August 30, 2012. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial condition, critical accounting policies and estimates, and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited 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 nine months ended March 2, 2013, and March 3, 2012, as reflected in our unaudited consolidated statements of comprehensive income.

Liquidity, Financial Position, and Capital Resources a discussion of our primary sources and uses of cash for the nine months ended March 2, 2013, and March 3, 2012, and a discussion of changes in our financial position.

BUSINESS OVERVIEW

Richardson Electronics, Ltd. (we , us , the Company , and our) is incorporated in the state of Delaware. We are a leading global provider of engineered solutions, power grid and microwave tubes and related components, and customized display solutions, serving customers in the alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. Our strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair.

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

Table of Contents

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for \$238.8 million, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of \$4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the agreed upon working capital adjustment.

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately \$2.3 million, including a working capital adjustment of \$0.2 million related to payables of approximately \$0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. This acquisition positions us to provide cost-effective service of microwave and power grid tube equipment for communications, industrial, military, and medical users around the world.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (D and C) for approximately \$2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the commercial, broadcast, medical, industrial, scientific, and military markets. This acquisition provides us with access to additional product lines, vendors, and customers.

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

Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO₂ laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

Canvys provides global customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and medical original equipment manufacturer (OEM) 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 MARCH 2, 2013

Net sales for the third quarter of fiscal 2013 were \$33.6 million, down 12.3%, compared to net sales of \$38.3 million during the third quarter of last year.

Gross margin as a percentage of net sales was 29.5% during the third quarter of fiscal 2013 and last year's third quarter.

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

SG&A expenses during the third quarter of fiscal 2013 were \$9.3 million, or 27.7% of net sales, compared to \$9.5 million, or 24.7% of net sales, during the third quarter of last year.

Operating income during the third quarter of fiscal 2013 was \$0.6 million, or 1.8% of net sales, compared to operating income of \$1.8 million, or 4.8% of net sales, during the third quarter of last year.

Table of Contents

Income from continuing operations during the third quarter of fiscal 2013 was \$0.6 million, or \$0.04 per diluted common share, compared to income from continuing operations of \$1.6 million, or \$0.09 per diluted common share, during the third quarter of last year.

Loss from discontinued operations, net of tax, was \$0.2 million, during the third quarter of fiscal 2013 compared to a loss from discontinued operations, net of tax, of \$0.3 million, during the third quarter of last year.

Net income during the third quarter of fiscal 2013 was \$0.4 million, or \$0.03 per diluted common share, compared to net income of \$1.3 million, or \$0.08 per diluted common share, during the third quarter of last year.

FINANCIAL SUMMARY NINE MONTHS ENDED MARCH 2, 2013

Net sales for the first nine months of fiscal 2013 were \$105.9 million, down 11.0%, compared to net sales of \$119.0 million during the first nine months of last year.

Gross margin as a percentage of net sales decreased to 29.6% during the first nine months of fiscal 2013 compared to 30.0% during the first nine months of last year.

SG&A expenses during the first nine months of fiscal 2013 were \$29.7 million, or 28.0% of net sales, compared to \$30.2 million, or 25.4% of net sales, during the first nine months of last year.

Operating income during the first nine months of fiscal 2013 was \$1.6 million, or 1.5% of net sales, compared to operating income of \$5.6 million, or 4.7% of net sales, during the first nine months of last year.

Income from continuing operations during the first nine months of fiscal 2013 was \$1.9 million, or \$0.12 per diluted common share, compared to income from continuing operations of \$4.2 million, or \$0.25 per diluted common share, during the first nine months of last year.

Loss from discontinued operations, net of tax, was \$0.5 million, during the first nine months of fiscal 2013 compared to income from discontinued operations, net of tax, of \$1.6 million, or \$0.09 per diluted common share, during the first nine months of last year.

Net income during the first nine months of fiscal 2013 was \$1.4 million, or \$0.09 per diluted common share, compared to net income of \$5.8 million, or \$0.34 per diluted common share, during the first nine months of last year.

Net Sales and Gross Profit Analysis

During the third quarter of fiscal 2013, consolidated net sales decreased 12.3% to \$33.6 million, compared to \$38.3 million during the third quarter of fiscal 2012. During the first nine months of fiscal 2013, consolidated net sales decreased 11.0% to \$105.9 million, compared to \$119.0 million during the first nine months of fiscal 2012.

Table of Contents

Net sales by segment and percent change during the third quarter and first nine months of fiscal 2013 and 2012 were as follows (*in thousands*):

Net Sales

	FY 2013	FY 2012	% Change
Third Quarter			
EDG	\$ 24,333	\$ 26,867	(9.4%)
Canvys	9,297	11,463	(18.9%)
Total	\$ 33,630	\$ 38,330	(12.3%)
First Nine Months			
EDG	\$ 76,146	\$ 85,618	(11.1%)
Canvys	29,737	33,361	(10.9%)
Total	\$ 105,883	\$ 118,979	(11.0%)

Consolidated gross profit as a percentage of net sales remained at 29.5% during the third quarter of fiscal 2013, as compared to 29.5% during the third quarter of fiscal 2012 and to 29.6% during the first nine months of fiscal 2013, as compared to 30.0% during the first nine months of fiscal 2012.

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 third quarter and first nine months of fiscal 2013 and 2012 were as follows (*in thousands*):

Gross Profit

	FY 2013	% of Net Sales	FY 2012	% of Net Sales
Third Quarter				
EDG	\$ 7,407	30.4%	\$ 8,085	30.1%
Canvys	2,503	26.9%	3,212	28.0%
Total	\$ 9,910	29.5%	\$ 11,297	29.5%
First Nine Months				
EDG	\$ 23,337	30.6%	\$ 26,302	30.7%
Canvys	7,961	26.8%	9,387	28.1%
Total	\$ 31,298	29.6%	\$ 35,689	30.0%

Electron Device Group

Net sales for EDG decreased 9.4% to \$24.3 million during the third quarter of fiscal 2013, from \$26.9 million during the third quarter of fiscal 2012. Net sales of tubes decreased to \$19.5 million during the third quarter of fiscal 2013, as compared to \$21.4 million during the third quarter of fiscal 2012, due primarily to economic concerns and weaker demand, particularly in Europe and China, as well as overall declines in the plastic, wood and semiconductor fabrication markets. Gross margin as a percentage of net sales increased slightly to 30.4% during the third quarter of fiscal 2013, as compared to 30.1% during the third quarter of fiscal 2012. The overall increase in gross margin primarily reflects a shift in sales mix between product lines and geographic regions.

Table of Contents

Net sales for EDG decreased 11.1% to \$76.1 million during the first nine months of fiscal 2013, from \$85.6 million during the first nine months of fiscal 2012. Net sales of tubes decreased to \$60.8 million during the first nine months of fiscal 2013, as compared to \$69.3 million during the first nine months of fiscal 2012, primarily due to the continuing declines in the plastic, wood, and semiconductor fabrication markets. Gross margin as a percentage of net sales decreased slightly to 30.6% during the first nine months of fiscal 2013, as compared to 30.7% during the first nine months of fiscal 2012. The overall decrease in gross margin primarily reflects unabsorbed manufacturing labor and overhead costs due to the decline in demand for semiconductor wafer fabrication components.

Canvys

Canvys net sales decreased 18.9% to \$9.3 million during the third quarter of fiscal 2013, from \$11.5 million during the third quarter of fiscal 2012. Sales were down across all three business segments but most significantly in the North America Healthcare segment driven by the uncertainty with the effects of the health care reform. Gross margin as a percentage of net sales decreased to 26.9% during the third quarter of fiscal 2013 as compared to 28.0% during the third quarter of fiscal 2012, due primarily to lower margin in North America and European OEM segments related to customer mix and price pressure. Gross margin for the Healthcare segment improved over prior year quarter.

Canvys net sales decreased 10.9% to \$29.7 million during the first nine months of fiscal 2013, from \$33.4 million during the first nine months of fiscal 2012. Sales were down in the North America Healthcare segment driven by the uncertainty with the effects of the health care reform while sales in Europe were down due to the continuing effect of the economic environment. Gross margin as a percentage of net sales decreased to 26.8% during the first nine months of fiscal 2013 as compared to 28.1% during the first nine months of fiscal 2012, due primarily to lower margin in Europe associated with customer mix and currency exchange.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (SG&A) decreased during the third quarter of fiscal 2013 to \$9.3 million from \$9.5 million during the third quarter of fiscal 2012. The decrease includes a \$0.1 million increase of SG&A for EDG offset by a \$0.1 million decrease of SG&A for Canvys and a \$0.1 million reduction of total company support function costs. The increase of \$0.1 million within EDG was due primarily to increases in employee related costs and marketing partially offset by reductions in travel and bad debt expense. The decrease of \$0.1 million within Canvys was due primarily to employee related costs and marketing. The decrease of \$0.1 million in total company support function costs was due primarily to decreases in employee related costs.

SG&A decreased during the first nine months of fiscal 2013 to \$29.7 million from \$30.2 million during the first nine months of fiscal 2012. The decrease includes a \$0.2 million reduction of SG&A for Canvys and a \$0.9 million reduction of total company support function costs, offset by a \$0.7 million increase of SG&A for EDG. The decrease of \$0.2 million within Canvys was due primarily to a reduction in bad debt expense. The decrease of \$0.9 million in support functions was due primarily to headcount reductions and professional services. The increase in SG&A for EDG of \$0.7 million was due primarily to increases in bad debt expense and product development costs.

Other (Income) Expense

Other (income) expense was \$0.2 million of expense during the third quarter of fiscal 2013, as compared to \$0.4 million of income during the third quarter of fiscal 2012. Other (income) expense included a foreign exchange loss of \$0.5 million during the third quarter of fiscal 2013, as compared to a foreign exchange gain of less than \$0.1 million during the third quarter of fiscal 2012. Our foreign exchange gains and losses are primarily due to the translation of our U.S. dollars we hold in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The third quarters of fiscal 2013 and fiscal 2012 also included \$0.3 million and \$0.4 million, respectively, of investment/interest income.

Table of Contents

Other (income) expense was \$0.3 million of income during the first nine months of fiscal 2013, as compared to \$0.7 million of income during the first nine months of fiscal 2012. Other (income) expense included a foreign exchange loss of \$0.7 million and \$0.3 million during the first nine months of fiscal 2013 and fiscal 2012, respectively. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The first nine months of fiscal 2013 and fiscal 2012 also included \$1.0 million and \$1.0 million, respectively, of investment/interest income.

Income Tax Provision

The effective income tax rate from continuing operations during the first nine months of fiscal 2013 was 2.1%, as compared to 32.5% during the first nine months of fiscal 2012. The decrease in rate during the first nine months of fiscal 2013, as compared to fiscal 2012, was due to the decrease in available cash in foreign jurisdictions to distribute unremitted foreign earnings with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*. The effective rate as compared to the federal statutory rate of 34.0% resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, in addition to our position with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*.

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, or non-U.S. tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal year 2011. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany and the Netherlands beginning in fiscal 2007.

As of March 2, 2013, approximately \$37.2 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of March 2, 2013, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of June 2, 2012. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is reasonably possible that there will be a change in the unrecognized tax benefits related to continuing and discontinued operations, excluding interest and penalties, in the range of \$0 to approximately \$0.3 million and in the range of \$0 to approximately \$1.3 million, respectively, due to the expiration of various statutes of limitations and closing of examinations within the next 12 months.

Discontinued Operations

Arrow Transaction

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for \$238.8 million, which included an estimated pre-closing working capital adjustment of approximately \$27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of \$4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow \$3.9 million to settle the working capital adjustment.

Table of Contents**Financial Summary Discontinued Operations**

Summary financial results for the three and nine months ended March 2, 2013, and March 3, 2012, are presented in the following table (*in thousands*):

	Three Months		Nine Months	
	Mar 2, 2013	Mar 3, 2012	Mar 2, 2013	Mar 3, 2012
Net sales (loss)	\$ (33)	\$ 840	\$ 466	\$ 2,532
Gross loss	(297)	(44)	(518)	(418)
Selling, general, and administrative expenses	231	377	497	(71)
Other (income) expense				
Additional gain on sale				(266)
Income tax provision (benefit)	(346)	(169)	(543)	(1,632)
Income (loss) from discontinued operations, net of tax	\$ (182)	\$ (252)	\$ (472)	\$ 1,551

Net sales and gross loss for the three and nine months ended March 2, 2013, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction. Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products for Arrow. Net sales for the third quarter ended March 2, 2013, reflect a return of inventory from RFPD of approximately \$0.1 million. There was also an income tax benefit of \$0.3 million recorded during the quarter, reflecting the tax benefit related to the loss from discontinued operations as well as a tax refund from one of our foreign subsidiaries.

Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of March 2, 2013, and June 2, 2012, include the following (*in thousands*):

	Mar 2, 2013	Jun 2, 2012
Inventories	\$ 379	\$ 503
Prepaid expenses and other assets		11
Discontinued operations Assets	\$ 379	\$ 514
Accrued liabilities - current ⁽¹⁾	\$ 831	\$ 253
Long-term income tax liabilities ⁽²⁾	1,461	1,361
Discontinued operations Liabilities	\$ 2,292	\$ 1,614

(1) Included in accrued liabilities as of March 2, 2013, is a payable to Arrow for transition services of \$2.4 million, offset by a receivable due to us from Arrow for transition services of \$1.6 million.

(2) Included in long-term income tax liabilities as of March 2, 2013, is the reserve for uncertain tax positions.

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. Cash flows related to our discontinued operations are not material.

Net Income and Per Share Data

Net income during the third quarter of fiscal 2013 was \$0.4 million, or \$0.03 per diluted common share and \$0.03 per Class B diluted common share, as compared to net income of \$1.3 million during the third quarter of fiscal 2012, or \$0.08 per diluted common share and \$0.08 per Class B diluted common share.

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

Net income during the first nine months of fiscal 2013 was \$1.4 million, or \$0.09 per diluted common share and \$0.08 per Class B diluted common share, as compared to net income of \$5.8 million during the first nine months of fiscal 2012, or \$0.34 per diluted common share and \$0.31 per Class B diluted common share.

Table of Contents**LIQUIDITY, FINANCIAL POSITION, AND CAPITAL RESOURCES**

Our growth and cash needs have been primarily financed through income from operations. Cash and cash equivalents for the first nine months ended March 2, 2013, were \$77.0 million. In addition, time deposits and CD's classified as short-term investments were \$63.6 million and long-term investments were \$7.1 million, including equity investments of \$0.4 million. Cash and investments at March 2, 2013, excluding equity investments of \$0.4 million, consisted of \$85.0 million in North America, \$20.2 million in Europe, \$1.2 million in Latin America, and \$40.9 million in Asia/Pacific. At June 2, 2012, cash and cash equivalents were \$43.9 million. Time deposits and CD's classified as short-term investments were \$105.0 million and long-term investments were \$10.7 million, including equity investments of \$0.4 million. Cash and investments at June 2, 2012, excluding equity investments of \$0.4 million, consisted of \$94.3 million in North America, \$20.7 million in Europe, \$0.7 million in Latin America, and \$43.5 million in Asia/Pacific.

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. Cash flows related to our discontinued operations are not material.

Cash Flows from Operating Activities

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

Operating activities, which include our discontinued operations, provided \$4.9 million of cash during the first nine months of fiscal 2013. We had net income of \$1.4 million in the first nine months of fiscal 2013, which included non-cash stock-based compensation expense of \$0.4 million associated with the issuance of stock option awards primarily to our directors and officers and non-cash depreciation and amortization expense of \$0.8 million associated with our investments in property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, provided \$2.3 million of cash during the first nine months of fiscal 2013, due primarily to the decrease in our inventory of \$2.2 million, decrease in our accounts receivable of \$0.5 million, partially offset by an increase to our prepaid expenses of \$0.3 million. The decrease in our inventory was the result of reduced inventory purchases during the first nine months due to the decline in net sales. The decrease in our receivables of \$0.5 million was due primarily to the improvement in our day sales outstanding. The increase in prepaid expenses of \$0.3 million was due primarily to the renewal of our liability insurance coverage.

Cash used in operating activities, including our discontinued operations, during the first nine months of fiscal 2012 was \$52.6 million. The \$52.6 million of cash used in operating activities primarily reflects a decrease of \$49.5 million in accrued liabilities, a \$5.4 million decrease in long-term tax liabilities, a \$4.8 million increase in income tax receivable, and an increase of \$8.3 million in inventory, offset by an \$8.6 million decrease in prepaid expenses and other assets. The \$49.5 million decrease in accrued liabilities, excluding the impact of foreign exchange of \$0.4 million, was due primarily to our tax payment related to the sale of RFPD during the first nine months of fiscal 2012. The \$5.4 million decrease in long-term tax liabilities, excluding the impact of foreign exchange of \$0.2 million, relates primarily to adjustments to our deferred tax liabilities as a result of changes to the amounts of permanently reinvested foreign earnings. The \$4.8 million in income tax receivable relates to an overpayment in our estimated tax during the first nine months of fiscal 2012. The \$8.3 million in inventory, excluding the impact of foreign exchange of \$0.3 million, was due primarily to increased purchasing to support future sales growth. The \$8.6 million decrease in prepaid expenses and other assets, excluding the impact of foreign exchange of less than \$0.1 million, was due primarily to the final payment received of \$4.2 million from Arrow for the sale of RFPD and a \$4.3 million decrease of discontinued assets.

Cash Flows from Investing Activities

The cash flow from investing activities has consisted primarily of purchases and maturities of investments and capital expenditures.

Cash provided by investing activities during the first nine months of fiscal 2013, included proceeds from maturities of investments of \$127.5 million, offset by purchases of investments of \$82.3 million, \$2.6 million for the acquisition of D and C, and \$1.1 million in capital expenditures.

Table of Contents

Net cash used in investing activities, including our discontinued operations, of \$78.4 million during the first nine months of fiscal 2012 was due primarily to the purchase of \$199.2 million in time deposits and CDs and \$2.3 million paid for the acquisition of Powerlink, offset by \$123.1 million in proceeds from time deposits and CDs.

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

Cash Flows from Financing Activities

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

Cash used in financing activities of \$14.1 million during the first nine months of fiscal 2013, resulted from \$11.6 million of cash used to repurchase common stock and \$2.7 million in dividends paid, offset by \$0.1 million of proceeds from the issuance of common stock. The repurchase of common stock relates to our share repurchase authorizations. Cash dividends paid of \$2.7 million were approved by the Board of Directors on January 8, 2013, July 24, 2012, and October 9, 2012.

Net cash used in financing activities, including discontinued operations, of \$14.9 million during the first nine months of fiscal 2012 was due primarily to \$13.1 million related to the repurchase of common stock and \$2.5 million in cash dividends paid, partially offset by \$0.7 million in proceeds from the issuance of common stock. The repurchase of common stock relates to our share repurchase authorizations. Cash dividends paid of \$2.5 million were approved by the Board of Directors on January 10, 2012, July 19, 2011, and October 4, 2011.

Dividend payments for the first nine months of fiscal 2013 were approximately \$2.7 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.

We believe that the existing sources of liquidity, including current cash, will provide sufficient resources to meet known capital requirements and working capital needs for the fiscal year ending June 1, 2013.

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. Our inventories included approximately \$32.4 million of finished goods and \$2.4 million of raw materials and work-in-progress as of March 2, 2013, as compared to approximately \$31.8 million of finished goods and \$2.9 million of raw materials and work-in-progress as of June 2, 2012.

At this time, we do not anticipate any material risks or uncertainties related to possible inventory write-downs for the remainder of fiscal 2013, ending June 1, 2013.

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

In the limited cases where remaining performance obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory and is not essential to the functionality of the delivered product. 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 insignificant in relation to the item sold, and 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 service, and the timing of the payment for the product is not contingent upon completion of remaining performance obligations, if any.

Table of Contents

Discontinued Operations: In accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements-Discontinued Operations* (ASC 205-20), we reported the financial results of RFPD as a discontinued operation. Refer to Note 4 *Discontinued Operations* of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

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.

Goodwill and Other Intangible Assets: Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicate impairment may have occurred, such as a significant adverse change in the business climate, loss of key personnel or a decision to sell or dispose of a reporting unit. As of March 2, 2013, our goodwill balance was \$2.2 million and represents the premium we paid for Powerlink of \$1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation and the premium we paid for D and C of \$0.9 million during our second quarter of fiscal 2013.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the last day of our third quarter as the measurement date. In accordance with ASC 350 *Intangibles Goodwill and Other* (ASC 350), if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period the impairment loss is identified.

During the fourth quarter of fiscal 2012, we adopted Accounting Standards Update (ASU) 2011-08 which allows a company the option to perform a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of an operating segment. We applied this qualitative approach to our EDG operating segment and concluded that indications of impairment were not present as of June 2, 2012. The qualitative factors considered included macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and other relevant entity or reporting unit specific events.

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

Our intangible asset is the fair value that we determined for customer relationships acquired in connection with the acquisition of Powerlink during the second quarter of our fiscal year 2012. The fair value was based upon discounted cash flows that the customer relationships are expected to generate over the next twenty years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management and Market Sensitive Financial Instruments

We are exposed to many different market risks with the various industries we serve. The primary financial risk we are exposed to is foreign currency exchange, as certain operations, assets, and liabilities of ours are denominated in foreign currencies. We manage these risks through normal operating and financing activities.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, *Risk Factors* of our Annual Report on Form 10-K for the year ended June 2, 2012, and in our Proxy Statement on schedule 14A filed with the Security and Exchange Commission on August 30, 2012.

Table of Contents

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 March 2, 2013.

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 third quarter of fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we or our subsidiaries are involved in legal actions that arise in the ordinary course of our business. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any current claims, including the above mentioned legal matters, will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 2, 2012, and in our Proxy Statement on Schedule 14A filed with the Security and Exchange Commission on August 30, 2012.

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

During the third quarter of fiscal 2013, we did not repurchase any shares of our common stock under our share repurchase authorization.

ITEM 5. OTHER INFORMATION

Results of Operation and Financial Condition and Declaration of Dividend

On April 10, 2013, we issued a press release reporting results for our third quarter and first nine months ended March 2, 2013, 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: April 11, 2013

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

Exhibit Number	Description
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 on Form 10-Q for the quarterly period ended December 3, 2011.
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 April 10, 2013.
101	The following financial information from our Quarterly Report on Form 10-Q for the third quarter and first nine months of fiscal 2013, filed with the SEC on April 11, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of March 2, 2013, and June 2, 2012, (ii) the Unaudited Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended March 2, 2013, and March 3, 2012, (iii) the Unaudited Consolidated Statements of Cash Flows for the three and nine months ended March 2, 2013, and March 3, 2012, (iv) the Unaudited Consolidated Statement of Stockholder's Equity as of March 2, 2013, and (v) Notes to Unaudited Consolidated Financial Statements.