

RICHARDSON ELECTRONICS LTD/DE  
Form 10-Q  
January 07, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended November 28, 2009

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)

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**Delaware**  
(State or other jurisdiction of

**36-2096643**  
(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 4, 2010, there were outstanding 14,868,344 shares of Common Stock, \$0.05 par value and 3,048,258 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.

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**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 28,<br>2009 | May 30,<br>2009 |
|------------------------------------------------------------|----------------------|-----------------|
| <b>Assets</b>                                              |                      |                 |
| <b>Current assets:</b>                                     |                      |                 |
| Cash and cash equivalents                                  | \$ 49,957            | \$ 43,887       |
| Accounts receivable, less allowance of \$2,079 and \$2,396 | 94,119               | 92,449          |
| Inventories                                                | 77,074               | 81,165          |
| Prepaid expenses                                           | 7,077                | 5,245           |
| Deferred income taxes                                      | 2,361                | 2,591           |
| <b>Total current assets</b>                                | 230,588              | 225,337         |
| <b>Non-current assets:</b>                                 |                      |                 |
| Property, plant and equipment, net                         | 17,822               | 19,371          |
| Other intangible assets, net                               | 337                  | 432             |
| Non-current deferred income taxes                          | 3,819                | 3,385           |
| Other non-current assets                                   | 316                  | 290             |
| <b>Total non-current assets</b>                            | 22,294               | 23,478          |
| <b>Total assets</b>                                        | \$ 252,882           | \$ 248,815      |
| <b>Liabilities and Stockholders' Equity</b>                |                      |                 |
| <b>Current liabilities:</b>                                |                      |                 |
| Accounts payable                                           | \$ 44,727            | \$ 52,996       |
| Accrued liabilities                                        | 20,065               | 18,371          |
| Current liabilities of discontinued operations             | 1,000                |                 |
| <b>Total current liabilities</b>                           | 65,792               | 71,367          |
| <b>Non-current liabilities:</b>                            |                      |                 |
| Long-term debt                                             | 52,353               | 52,353          |
| Long-term income tax liabilities                           | 3,635                | 5,016           |
| Other non-current liabilities                              | 1,568                | 1,386           |
| <b>Total non-current liabilities</b>                       | 57,556               | 58,755          |
| <b>Total liabilities</b>                                   | 123,348              | 130,122         |

**Commitments and contingencies**

|                                                                                                                    |                   |                   |
|--------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Stockholders' equity</b>                                                                                        |                   |                   |
| Common stock, \$0.05 par value; issued 15,931 shares at November 28, 2009, and 15,930 shares at May 30, 2009       | 797               | 797               |
| Class B common stock, convertible, \$0.05 par value; issued 3,048 shares at November 28, 2009, and at May 30, 2009 | 152               | 152               |
| Preferred stock, \$1.00 par value, no shares issued                                                                |                   |                   |
| Additional paid-in-capital                                                                                         | 120,022           | 120,370           |
| Common stock in treasury, at cost, 1,063 shares at November 28, 2009, and 1,065 shares at May 30, 2009             | (6,300)           | (6,310)           |
| Retained earnings (accumulated deficit)                                                                            | 2,574             | (2,475)           |
| Accumulated other comprehensive income                                                                             | 12,289            | 6,159             |
| <b>Total stockholders' equity</b>                                                                                  | <b>129,534</b>    | <b>118,693</b>    |
| <b>Total liabilities and stockholders' equity</b>                                                                  | <b>\$ 252,882</b> | <b>\$ 248,815</b> |

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

|                                                       | <b>Three Months Ended</b>    |                              | <b>Six Months Ended</b>      |                              |
|-------------------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                                       | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> |
| <b>Statements of Operations</b>                       |                              |                              |                              |                              |
| <b>Net sales</b>                                      | \$ 115,934                   | \$ 132,551                   | \$ 225,426                   | \$ 271,498                   |
| Cost of sales                                         | 86,893                       | 99,373                       | 169,916                      | 205,601                      |
| <b>Gross profit</b>                                   | 29,041                       | 33,178                       | 55,510                       | 65,897                       |
| Selling, general, and administrative expenses         | 23,673                       | 28,219                       | 46,616                       | 56,403                       |
| (Gain) loss on disposal of assets                     |                              | 3                            | (2)                          | 78                           |
| <b>Operating income</b>                               | 5,368                        | 4,956                        | 8,896                        | 9,416                        |
| Other (income) expense:                               |                              |                              |                              |                              |
| Interest expense                                      | 1,099                        | 1,183                        | 2,244                        | 2,359                        |
| Investment income                                     | (27)                         | (163)                        | (60)                         | (370)                        |
| Foreign exchange (gain) loss                          | 700                          | (1,485)                      | 1,518                        | (2,483)                      |
| Gain on retirement of long-term debt                  |                              | (849)                        |                              | (849)                        |
| Other, net                                            | (91)                         | (90)                         | (98)                         | (166)                        |
| <b>Total other (income) expense</b>                   | 1,681                        | (1,404)                      | 3,604                        | (1,509)                      |
| Income from continuing operations before income taxes | 3,687                        | 6,360                        | 5,292                        | 10,925                       |
| Income tax provision (benefit)                        | (620)                        | 426                          | (930)                        | 1,298                        |
| Income from continuing operations                     | 4,307                        | 5,934                        | 6,222                        | 9,627                        |
| Loss from discontinued operations                     | 1,173                        |                              | 1,173                        |                              |
| <b>Net income</b>                                     | \$ 3,134                     | \$ 5,934                     | \$ 5,049                     | \$ 9,627                     |
| Net income per common share basic:                    |                              |                              |                              |                              |
| Income from continuing operations                     | \$ 0.25                      | \$ 0.34                      | \$ 0.36                      | \$ 0.55                      |
| Loss from discontinued operations                     | (0.07)                       |                              | (0.07)                       |                              |
| <b>Net income per common share basic</b>              | \$ 0.18                      | \$ 0.34                      | \$ 0.29                      | \$ 0.55                      |
| Net income per Class B common share basic:            |                              |                              |                              |                              |
| Income from continuing operations                     | \$ 0.22                      | \$ 0.30                      | \$ 0.32                      | \$ 0.49                      |
| Loss from discontinued operations                     | (0.06)                       |                              | (0.06)                       |                              |
| <b>Net income per Class B common share basic</b>      | \$ 0.16                      | \$ 0.30                      | \$ 0.26                      | \$ 0.49                      |
| Net income per common share diluted:                  |                              |                              |                              |                              |
| Income from continuing operations                     | \$ 0.24                      | \$ 0.31                      | \$ 0.34                      | \$ 0.52                      |
| Loss from discontinued operations                     | (0.06)                       |                              | (0.06)                       |                              |

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|                                                        |    |        |    |         |    |        |    |          |
|--------------------------------------------------------|----|--------|----|---------|----|--------|----|----------|
| <b>Net income per common share    diluted</b>          | \$ | 0.18   | \$ | 0.31    | \$ | 0.28   | \$ | 0.52     |
| <b>Net income per Class B common share    diluted:</b> |    |        |    |         |    |        |    |          |
| Income from continuing operations                      | \$ | 0.21   | \$ | 0.28    | \$ | 0.31   | \$ | 0.47     |
| Loss from discontinued operations                      |    | (0.05) |    |         |    | (0.05) |    |          |
| <b>Net income per Class B common share    diluted</b>  | \$ | 0.16   | \$ | 0.28    | \$ | 0.26   | \$ | 0.47     |
| <b>Weighted average number of shares:</b>              |    |        |    |         |    |        |    |          |
| Common shares    basic                                 |    | 14,864 |    | 14,858  |    | 14,862 |    | 14,855   |
| Class B common shares    basic                         |    | 3,048  |    | 3,048   |    | 3,048  |    | 3,048    |
| Common shares    diluted                               |    | 21,148 |    | 21,140  |    | 18,661 |    | 21,139   |
| Class B common shares    diluted                       |    | 3,048  |    | 3,048   |    | 3,048  |    | 3,048    |
| <b>Dividends per common share</b>                      | \$ | 0.020  | \$ | 0.020   | \$ | 0.040  | \$ | 0.040    |
| <b>Dividends per Class B common share</b>              | \$ | 0.018  | \$ | 0.018   | \$ | 0.036  | \$ | 0.036    |
| <b>Statements of Comprehensive Income (Loss)</b>       |    |        |    |         |    |        |    |          |
| Net income                                             | \$ | 3,134  | \$ | 5,934   | \$ | 5,049  | \$ | 9,627    |
| Foreign currency translation                           |    | 3,747  |    | (9,500) |    | 6,132  |    | (14,347) |
| Fair value adjustments on investments                  |    | 2      |    | (100)   |    | (2)    |    | (143)    |
| <b>Comprehensive income (loss)</b>                     | \$ | 6,883  | \$ | (3,666) | \$ | 11,179 | \$ | (4,863)  |

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

|                                                                               | <b>Three Months Ended</b>    |                              | <b>Six Months Ended</b>      |                              |
|-------------------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                                                               | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> |
| <b>Operating activities:</b>                                                  |                              |                              |                              |                              |
| <b>Net income</b>                                                             | \$ 3,134                     | \$ 5,934                     | \$ 5,049                     | \$ 9,627                     |
| Adjustments to reconcile net income to cash provided by operating activities: |                              |                              |                              |                              |
| Depreciation and amortization                                                 | 1,115                        | 1,150                        | 2,179                        | 2,359                        |
| Loss from discontinued operations                                             | 1,173                        |                              | 1,173                        |                              |
| Gain on retirement of long-term debt                                          |                              | (849)                        |                              | (849)                        |
| (Gain) loss on disposal of assets                                             |                              | 3                            | (2)                          | 78                           |
| Stock compensation expense                                                    | 202                          | 206                          | 351                          | 304                          |
| Deferred income taxes                                                         | 260                          | (251)                        | 84                           | (60)                         |
| Accounts receivable                                                           | (4,786)                      | 918                          | 1,039                        | 2,072                        |
| Inventories                                                                   | 7,705                        | (2,800)                      | 5,885                        | (10,398)                     |
| Prepaid expenses                                                              | 204                          | 35                           | (1,472)                      | (1,222)                      |
| Accounts payable                                                              | (988)                        | 1,558                        | (8,731)                      | 5,407                        |
| Accrued liabilities                                                           | 591                          | (586)                        | 946                          | (2,232)                      |
| Long-term income tax liabilities                                              | (868)                        | (552)                        | (1,222)                      | (745)                        |
| Other                                                                         | (843)                        | (231)                        | (580)                        | (769)                        |
| <b>Net cash provided by operating activities</b>                              | <b>6,899</b>                 | <b>4,535</b>                 | <b>4,699</b>                 | <b>3,572</b>                 |
| <b>Investing activities:</b>                                                  |                              |                              |                              |                              |
| Capital expenditures                                                          | (214)                        | (369)                        | (494)                        | (498)                        |
| Proceeds from sale of assets                                                  |                              | 29                           |                              | 51                           |
| Contingent purchase price                                                     |                              | (86)                         |                              | (139)                        |
| (Gain) loss on sale of investments                                            | (10)                         | 4                            | (27)                         | (10)                         |
| Proceeds from sales of available-for-sale securities                          | 64                           | 40                           | 103                          | 99                           |
| Purchases of available-for-sale securities                                    | (64)                         | (40)                         | (103)                        | (99)                         |
| <b>Net cash used in investing activities</b>                                  | <b>(224)</b>                 | <b>(422)</b>                 | <b>(521)</b>                 | <b>(596)</b>                 |
| <b>Financing activities:</b>                                                  |                              |                              |                              |                              |
| Proceeds from borrowings                                                      |                              | 47,600                       | 10,200                       | 57,900                       |
| Payments on debt                                                              |                              | (47,600)                     | (10,200)                     | (57,900)                     |
| Retirement of long-term debt                                                  |                              | (2,364)                      |                              | (2,364)                      |
| Proceeds from issuance of common stock                                        |                              |                              | 5                            | 5                            |
| Cash dividends                                                                | (352)                        | (352)                        | (704)                        | (704)                        |
| Other                                                                         | 10                           |                              | 10                           |                              |
| <b>Net cash used in financing activities</b>                                  | <b>(342)</b>                 | <b>(2,716)</b>               | <b>(689)</b>                 | <b>(3,063)</b>               |
| Effect of exchange rate changes on cash and cash equivalents                  | 1,829                        | (2,984)                      | 2,581                        | (4,475)                      |
| <b>Increase (decrease) in cash and cash equivalents</b>                       | <b>8,162</b>                 | <b>(1,587)</b>               | <b>6,070</b>                 | <b>(4,562)</b>               |
| Cash and cash equivalents at beginning of period                              | 41,795                       | 37,067                       | 43,887                       | 40,042                       |

|                                            |           |           |           |           |
|--------------------------------------------|-----------|-----------|-----------|-----------|
| Cash and cash equivalents at end of period | \$ 49,957 | \$ 35,480 | \$ 49,957 | \$ 35,480 |
|--------------------------------------------|-----------|-----------|-----------|-----------|

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

|                                       | Common | Class B<br>Common | Par<br>Value | Additional<br>Paid In<br>Capital | Common<br>Stock in<br>Treasury | (Accumulated<br>Deficit) /<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total      |
|---------------------------------------|--------|-------------------|--------------|----------------------------------|--------------------------------|----------------------------------------------------|-------------------------------------------------|------------|
| <b>Balance May 30, 2009:</b>          | 15,930 | 3,048             | \$ 949       | \$ 120,370                       | \$ (6,310)                     | \$ (2,475)                                         | \$ 6,159                                        | \$ 118,693 |
| Net income                            |        |                   |              |                                  |                                | 5,049                                              |                                                 | 5,049      |
| Foreign currency translation          |        |                   |              |                                  |                                |                                                    | 6,132                                           | 6,132      |
| Fair value adjustments on investments |        |                   |              |                                  |                                |                                                    | (2)                                             | (2)        |
| Share-based compensation:             |        |                   |              |                                  |                                |                                                    |                                                 |            |
| Non-vested restricted stock           |        |                   |              | 15                               |                                |                                                    |                                                 | 15         |
| Stock options                         |        |                   |              | 336                              |                                |                                                    |                                                 | 336        |
| Common stock issued                   | 1      |                   |              | 5                                |                                |                                                    |                                                 | 5          |
| Treasury stock                        |        |                   |              |                                  | 10                             |                                                    |                                                 | 10         |
| Dividends paid to:                    |        |                   |              |                                  |                                |                                                    |                                                 |            |
| Common (\$0.040 per share)            |        |                   |              | (594)                            |                                |                                                    |                                                 | (594)      |
| Class B (\$0.036 per share)           |        |                   |              | (110)                            |                                |                                                    |                                                 | (110)      |
| <b>Balance November 28, 2009:</b>     | 15,931 | 3,048             | \$ 949       | \$ 120,022                       | \$ (6,300)                     | \$ 2,574                                           | \$ 12,289                                       | \$ 129,534 |

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**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 and a global distributor of electronic components to the radio frequency ( RF ), wireless and power conversion, electron device, and 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.

Our sales and marketing, product management, and purchasing functions are organized as follows:

*RF, Wireless & Power Division* ( RFPD ) serves the global RF and wireless communications market, including infrastructure, wireless networks, and the power conversion market.

*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 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 Item 10 of Regulation S-K and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements.

References to GAAP issued by the Financial Accounting Standards Board ( FASB ) in these footnotes are to the *FASB Accounting Standards Codification*, <sup>TM</sup> sometimes referred to as the Codification or ASC. The FASB finalized the codification effective for periods ending on or after September 15, 2009.

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In the opinion of management, all adjustments 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

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

presented herein include the accounts of our wholly owned subsidiaries. The results of operations and cash flows for the three and six months ended November 28, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending May 29, 2010.

Our fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first six months of fiscal 2010 and 2009 each contain 26 weeks.

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 30, 2009.

**3. DISCONTINUED OPERATIONS**

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.

**4. 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. The fair value of our equity securities, which are included in other non-current assets, were \$0.3 million as of November 28, 2009, and May 30, 2009. Proceeds from the sale of securities were \$0.1 million during the second quarter and first six months of fiscal 2010. Proceeds from the sale of securities was less than \$0.1 million during the second quarter of fiscal 2009 and \$0.1 during the first six months of fiscal 2009. Gross realized gains and losses on those sales were less than \$0.1 million during the second quarter and first six months of fiscal 2010 and 2009. Net unrealized holding losses of less than \$0.1 million during the second quarter and first six months of fiscal 2010 have been included in accumulated other comprehensive income. Net unrealized holding losses of \$0.1 million during the second quarter and first six months of fiscal 2009 have been included in accumulated other comprehensive income.

The following table presents the disclosure as required by FASB Accounting Standards Codification ( 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 28, 2009         |                                    |                   |                     |                   |            |                   |
| Common Stock              | \$ 65                              | \$ 2              | \$ 19               | \$ 4              | \$ 84      | \$ 6              |
| May 30, 2009              |                                    |                   |                     |                   |            |                   |
| Common Stock              | \$ 20                              | \$ 1              | \$ 25               | \$ 5              | \$ 45      | \$ 6              |

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INTANGIBLE ASSETS**

Intangible assets subject to amortization were as follows (*in thousands*):

|                          | Intangible Assets Subject to Amortization |                             |                  |                             |
|--------------------------|-------------------------------------------|-----------------------------|------------------|-----------------------------|
|                          | November 28, 2009                         |                             | May 30, 2009     |                             |
|                          | Gross<br>Amounts                          | Accumulated<br>Amortization | Gross<br>Amounts | Accumulated<br>Amortization |
| Deferred financing costs | \$ 1,115                                  | \$ 778                      | \$ 1,115         | \$ 683                      |
| Trademarks               | 478                                       | 478                         | 478              | 478                         |
| <b>Total</b>             | <b>\$ 1,593</b>                           | <b>\$ 1,256</b>             | <b>\$ 1,593</b>  | <b>\$ 1,161</b>             |

Amortization expense during the three and six month periods ended November 28, 2009, and November 29, 2008, were as follows (*in thousands*):

|                          | Amortization Expense<br>for Three Months |                      | Amortization Expense<br>for Six Months |                      |
|--------------------------|------------------------------------------|----------------------|----------------------------------------|----------------------|
|                          | November 28,<br>2009                     | November 29,<br>2008 | November 28,<br>2009                   | November 29,<br>2008 |
| Deferred financing costs | \$ 48                                    | \$ 54                | \$ 95                                  | \$ 113               |
| <b>Total</b>             | <b>\$ 48</b>                             | <b>\$ 54</b>         | <b>\$ 95</b>                           | <b>\$ 113</b>        |

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<br>Expense |
|-------------|-------------------------|
| 2010        | \$ 95                   |
| 2011        | \$ 190                  |
| 2012        | \$ 52                   |
| 2013        | \$                      |
| 2014        | \$                      |
| Thereafter  | \$                      |

The weighted average number of years of amortization expense remaining is 1.77.

On December 11, 2009, we notified the holders of our 8% convertible senior subordinated notes (8% notes) that we elected to redeem at par value all \$7.7 million in aggregate principal outstanding. The 8% notes will be redeemed on January 11, 2010. The redemption of the 8% notes will result in a loss of approximately \$0.2 million due to the write-off of the remaining deferred financing fees associated with 8% notes.

**6. WARRANTIES**

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We offer warranties for 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, beyond the original manufacturer warranty.

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 unaudited condensed consolidated balance sheets, were approximately \$0.2 million as of November 28, 2009, and May 30, 2009.

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. DEBT**

Long-term debt for the periods ended November 28, 2009, and May 30, 2009, was as follows (*in thousands*):

|                                                                                          | November 28,<br>2009 | May 30,<br>2009 |
|------------------------------------------------------------------------------------------|----------------------|-----------------|
| 7 <sup>3</sup> / <sub>4</sub> % convertible senior subordinated notes, due December 2011 | \$ 44,683            | \$ 44,683       |
| 8% convertible senior subordinated notes, due June 2011                                  | 7,670                | 7,670           |
| Revolving credit agreement, due July 2010                                                |                      |                 |
| Total long term debt                                                                     | \$ 52,353            | \$ 52,353       |

As of November 28, 2009, we maintained \$52.4 million in long-term debt in the form of two series of convertible notes.

On December 9, 2009, we retired \$0.9 million of the 7<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes (7<sup>3</sup>/<sub>4</sub>% notes) at approximately 97% of par value, which resulted in a gain of less than \$0.1 million, net of deferred financing costs of less than \$0.1 million. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the \$0.9 million of the 7<sup>3</sup>/<sub>4</sub>% notes.

On December 11, 2009, we notified the holders of our 8% notes that we elected to redeem at par value all \$7.7 million in aggregate principal outstanding. The 8% notes will be redeemed on January 11, 2010. The redemption of the 8% notes will result in a loss of approximately \$0.2 million due to the write-off of the remaining deferred financing fees associated with 8% notes. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the \$7.7 million of the 8% notes.

We entered into a \$40.0 million revolving credit agreement on July 27, 2007, which included a Euro sub-facility and a Singapore sub-facility. The U.S. facility is reduced by the amounts drawn on the Euro sub-facility and Singapore sub-facility. Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the total capacity was reduced from \$40.0 million to \$25.0 million. As of November 28, 2009, there were no amounts outstanding under the revolving credit agreement. Outstanding letters of credit were approximately \$0.1 million and we also had \$2.5 million reserved for usage on our commercial credit card program, leaving an unused line of \$22.4 million as of November 28, 2009. Based on our loan covenants, actual available credit as of November 28, 2009, was \$22.4 million. We were in compliance with our loan covenants as of November 28, 2009.

Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the definition of the leverage ratio has been modified to exclude goodwill impairment charges, severance expense, and inventory write-downs in the calculation of adjusted earnings before interest, taxes, depreciation, and amortization ( EBITDA ), for the fiscal year ended May 30, 2009. We were in compliance with our loan covenants as of May 30, 2009, without this amendment to our revolving credit agreement.

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The estimated fair values of our 7<sup>3</sup>/<sub>4</sub>% notes and 8% notes are based on price quotes at November 28, 2009, and May 30, 2009. The following table presents the disclosure under FASB ASC 825-10-50, *Financial Instruments (in thousands)*:

|                                       | November 28, 2009 |                  | May 30, 2009     |                  |
|---------------------------------------|-------------------|------------------|------------------|------------------|
|                                       | Carrying Value    | Fair Value       | Carrying Value   | Fair Value       |
| 7 <sup>3</sup> / <sub>4</sub> % notes | \$ 44,683         | \$ 43,343        | \$ 44,683        | \$ 38,235        |
| 8% notes                              | 7,670             | 7,670            | 7,670            | 6,789            |
| <b>Total</b>                          | <b>\$ 52,353</b>  | <b>\$ 51,013</b> | <b>\$ 52,353</b> | <b>\$ 45,024</b> |

See our Annual Report on Form 10-K for the fiscal year ended May 30, 2009, for additional discussion on our debt.

**8. INCOME TAXES**

The effective income tax rate from continuing operations during the second quarter and first six months of fiscal 2010 was a *tax benefit* of 16.8% and 17.6%, respectively, as compared to a *tax provision* of 6.7% and 11.9% for the second quarter and first six months of fiscal 2009, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the second quarter and first six months of fiscal 2010 resulted from our geographical distribution of taxable income or losses. The second quarter of fiscal 2010 included a benefit of approximately \$0.1 million related to prior year's income taxes of certain of our foreign jurisdictions and a benefit of approximately \$0.9 million of reserve reversals related to expiring statutes of limitations. The first six months of fiscal 2010 included a \$0.5 million benefit related to prior year's income taxes of certain of our foreign jurisdictions and a benefit of approximately \$1.4 million of reserve reversals related to expiring statutes of limitations.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the second quarter and first six months of fiscal 2009 resulted from our geographical distribution of taxable income or losses. The second quarter of fiscal 2009 included a tax benefit of less than \$0.1 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a provision of less than \$0.1 million related to prior year's income tax of one of our foreign jurisdictions. The first six months of fiscal 2009 included a tax benefit of \$0.9 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a provision of \$0.6 million related to prior year's income tax of one of our foreign jurisdictions.

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 year 2004. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years prior to fiscal year 2002. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal year 2002; in the Netherlands, Germany and Japan beginning in fiscal year 2004; and in China beginning in fiscal year 2006.

As of November 28, 2009, our worldwide liability for uncertain tax positions, excluding interest and penalties, was \$3.4 million as compared to \$4.3 million as of May 30, 2009. 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 decreased in the three months ended November 28, 2009, primarily due to the expiration of certain statutes of limitation.

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 \$0.2 million due to the expiration of various statutes of limitations within the next 12 months.



**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. 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 ten 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 FASB 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 of fiscal 2010 and 2009, the assumed conversion and the effect of the interest savings of our 8% notes and 7<sup>3</sup>/<sub>4</sub>% notes were included because their inclusion was dilutive. For the first six months of fiscal 2010, the assumed conversion and the effect of the interest savings of our 8% notes were included because their inclusion was dilutive. For the first six months of fiscal 2009, the assumed conversion and the effect of the interest savings of our 8% notes and 7<sup>3</sup>/<sub>4</sub>% were included because their inclusion was dilutive.

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

|                                             | Three Months Ended |                 |                   |                 |
|---------------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                             | November 28, 2009  |                 | November 29, 2008 |                 |
|                                             | Basic              | Diluted (I)     | Basic             | Diluted (I)     |
| <i>Numerator for basic and diluted EPS:</i> |                    |                 |                   |                 |
| <b>Income from continuing operations</b>    | \$ 4,307           | \$ 4,939        | \$ 5,934          | \$ 6,566        |
| Less dividends:                             |                    |                 |                   |                 |
| Common stock                                | 297                | 362             | 297               | 362             |
| Class B common stock                        | 55                 | 55              | 55                | 55              |
| Undistributed earnings                      | \$ 3,955           | \$ 4,522        | \$ 5,582          | \$ 6,149        |
| Common stock undistributed earnings         | \$ 3,339           | \$ 3,927        | \$ 4,712          | \$ 5,339        |
| Class B common stock undistributed earnings | 616                | 595             | 870               | 810             |
| <b>Total undistributed earnings</b>         | <b>\$ 3,955</b>    | <b>\$ 4,522</b> | <b>\$ 5,582</b>   | <b>\$ 6,149</b> |

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                                                                                   | Three Months Ended |             |                   |             |
|-------------------------------------------------------------------------------------------------------------------|--------------------|-------------|-------------------|-------------|
|                                                                                                                   | November 28, 2009  |             | November 29, 2008 |             |
|                                                                                                                   | Basic              | Diluted (I) | Basic             | Diluted (I) |
| <i>Numerator for basic and diluted EPS continued:</i>                                                             |                    |             |                   |             |
| <b>Loss from discontinued operations</b>                                                                          | \$ (1,173)         | \$ (1,173)  | \$                | \$          |
| Less dividends:                                                                                                   |                    |             |                   |             |
| Common stock                                                                                                      | 297                | 362         | 297               | 362         |
| Class B common stock                                                                                              | 55                 | 55          | 55                | 55          |
| Undistributed losses                                                                                              | \$ (1,525)         | \$ (1,590)  | \$ (352)          | \$ (417)    |
| Common stock undistributed losses                                                                                 | \$ (1,287)         | \$ (1,381)  | \$ (297)          | \$ (362)    |
| Class B common stock undistributed losses                                                                         | (238)              | (209)       | (55)              | (55)        |
| Total undistributed losses                                                                                        | \$ (1,525)         | \$ (1,590)  | \$ (352)          | \$ (417)    |
| <b>Net income</b>                                                                                                 | \$ 3,134           | \$ 3,766    | \$ 5,934          | \$ 6,566    |
| Less dividends:                                                                                                   |                    |             |                   |             |
| Common stock                                                                                                      | 297                | 362         | 297               | 362         |
| Class B common stock                                                                                              | 55                 | 55          | 55                | 55          |
| Undistributed earnings                                                                                            | \$ 2,782           | \$ 3,349    | \$ 5,582          | \$ 6,149    |
| Common stock undistributed earnings                                                                               | \$ 2,349           | \$ 2,908    | \$ 4,712          | \$ 5,339    |
| Class B common stock undistributed earnings                                                                       | 433                | 441         | 870               | 810         |
| Total undistributed earnings                                                                                      | \$ 2,782           | \$ 3,349    | \$ 5,582          | \$ 6,149    |
| <i>Denominator for basic and diluted EPS:</i>                                                                     |                    |             |                   |             |
| <i>Denominator for basic EPS:</i>                                                                                 |                    |             |                   |             |
| Common stock weighted average shares                                                                              | 14,864             | 14,864      | 14,858            | 14,858      |
| Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share | 3,048              | 3,048       | 3,048             | 3,048       |
| <i>Effect of dilutive securities</i>                                                                              |                    |             |                   |             |
| Unvested restricted stock awards                                                                                  |                    | 4           |                   | 8           |
| Dilutive stock options                                                                                            |                    | 6           |                   |             |
| Convertible 8% notes                                                                                              |                    | 744         |                   | 744         |
| Convertible 7 <sup>3</sup> / <sub>4</sub> % notes                                                                 |                    | 2,482       |                   | 2,482       |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions                          |                    | 21,148      |                   | 21,140      |
| <b>Income from continuing operations per share:</b>                                                               |                    |             |                   |             |
| Common stock                                                                                                      | \$ 0.25            | \$ 0.24     | \$ 0.34           | \$ 0.31     |

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|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.22 | \$ 0.21 | \$ 0.30 | \$ 0.28 |
|----------------------|---------|---------|---------|---------|

## Loss from discontinued operations per share:

|              |           |           |    |    |
|--------------|-----------|-----------|----|----|
| Common stock | \$ (0.07) | \$ (0.06) | \$ | \$ |
|--------------|-----------|-----------|----|----|

|                      |           |           |    |    |
|----------------------|-----------|-----------|----|----|
| Class B common stock | \$ (0.06) | \$ (0.05) | \$ | \$ |
|----------------------|-----------|-----------|----|----|

## Net income per share:

|              |         |         |         |         |
|--------------|---------|---------|---------|---------|
| Common stock | \$ 0.18 | \$ 0.18 | \$ 0.34 | \$ 0.31 |
|--------------|---------|---------|---------|---------|

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.16 | \$ 0.16 | \$ 0.30 | \$ 0.28 |
|----------------------|---------|---------|---------|---------|

(1) Net income and common stock dividends for the three months ended November 28, 2009, and November 29, 2008, have been adjusted for the dilutive impact of the conversion of our 8% notes and 7<sup>3</sup>/<sub>4</sub>% notes.

Note: Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the second quarter of fiscal 2010 and 2009 were 1,864,627 and 1,800,832, respectively.

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                                                                                   | Six Months Ended  |             |                   |             |
|-------------------------------------------------------------------------------------------------------------------|-------------------|-------------|-------------------|-------------|
|                                                                                                                   | November 28, 2009 |             | November 29, 2008 |             |
|                                                                                                                   | Basic             | Diluted (1) | Basic             | Diluted (2) |
| <i>Numerator for basic and diluted EPS:</i>                                                                       |                   |             |                   |             |
| <b>Income from continuing operations</b>                                                                          | \$ 6,222          | \$ 6,412    | \$ 9,627          | \$ 10,891   |
| Less dividends:                                                                                                   |                   |             |                   |             |
| Common stock                                                                                                      | 594               | 624         | 594               | 724         |
| Class B common stock                                                                                              | 110               | 110         | 110               | 110         |
| Undistributed earnings                                                                                            | \$ 5,518          | \$ 5,678    | \$ 8,923          | \$ 10,057   |
| Common stock undistributed earnings                                                                               | \$ 4,658          | \$ 4,829    | \$ 7,532          | \$ 8,733    |
| Class B common stock undistributed earnings                                                                       | 860               | 849         | 1,391             | 1,324       |
| Total undistributed earnings                                                                                      | \$ 5,518          | \$ 5,678    | \$ 8,923          | \$ 10,057   |
| <b>Loss from discontinued operations</b>                                                                          | \$ (1,173)        | \$ (1,173)  | \$                | \$          |
| Less dividends:                                                                                                   |                   |             |                   |             |
| Common stock                                                                                                      | 594               | 624         | 594               | (724)       |
| Class B common stock                                                                                              | 110               | 110         | 110               | (110)       |
| Undistributed losses                                                                                              | \$ (1,877)        | \$ (1,907)  | \$ (704)          | \$ (834)    |
| Common stock undistributed losses                                                                                 | \$ (1,585)        | \$ (1,622)  | \$ (594)          | \$ (724)    |
| Class B common stock undistributed losses                                                                         | (292)             | (285)       | (110)             | (110)       |
| Total undistributed losses                                                                                        | \$ (1,877)        | \$ (1,907)  | \$ (704)          | \$ (834)    |
| <b>Net income</b>                                                                                                 | \$ 5,049          | \$ 5,239    | \$ 9,627          | \$ 10,891   |
| Less dividends:                                                                                                   |                   |             |                   |             |
| Common stock                                                                                                      | 594               | 624         | 594               | 724         |
| Class B common stock                                                                                              | 110               | 110         | 110               | 110         |
| Undistributed earnings                                                                                            | \$ 4,345          | \$ 4,505    | \$ 8,923          | \$ 10,057   |
| Common stock undistributed earnings                                                                               | \$ 3,668          | \$ 3,832    | \$ 7,532          | \$ 8,733    |
| Class B common stock undistributed earnings                                                                       | 677               | 673         | 1,391             | 1,324       |
| Total undistributed earnings                                                                                      | \$ 4,345          | \$ 4,505    | \$ 8,923          | \$ 10,057   |
| <i>Denominator for basic and diluted EPS:</i>                                                                     |                   |             |                   |             |
| <b>Denominator for basic EPS:</b>                                                                                 |                   |             |                   |             |
| Common stock weighted average shares                                                                              | 14,862            | 14,862      | 14,855            | 14,855      |
| Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share | 3,048             | 3,048       | 3,048             | 3,048       |
| Effect of dilutive securities                                                                                     |                   |             |                   |             |
| Unvested restricted stock awards                                                                                  |                   | 6           |                   | 10          |
| Dilutive stock options                                                                                            |                   | 1           |                   |             |
| Convertible 8% notes                                                                                              |                   | 744         |                   | 744         |
| Convertible 7 3/4% notes                                                                                          |                   |             |                   | 2,482       |

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|                                                                                          |        |        |
|------------------------------------------------------------------------------------------|--------|--------|
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | 18,661 | 21,139 |
|------------------------------------------------------------------------------------------|--------|--------|

## Income from continuing operations per share:

|              |         |         |         |         |
|--------------|---------|---------|---------|---------|
| Common stock | \$ 0.36 | \$ 0.34 | \$ 0.55 | \$ 0.52 |
|--------------|---------|---------|---------|---------|

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.32 | \$ 0.31 | \$ 0.49 | \$ 0.47 |
|----------------------|---------|---------|---------|---------|

## Loss from discontinued operations per share:

|              |           |           |    |    |
|--------------|-----------|-----------|----|----|
| Common stock | \$ (0.07) | \$ (0.06) | \$ | \$ |
|--------------|-----------|-----------|----|----|

|                      |           |           |    |    |
|----------------------|-----------|-----------|----|----|
| Class B common stock | \$ (0.06) | \$ (0.05) | \$ | \$ |
|----------------------|-----------|-----------|----|----|

## Net income per share:

|              |         |         |         |         |
|--------------|---------|---------|---------|---------|
| Common stock | \$ 0.29 | \$ 0.28 | \$ 0.55 | \$ 0.52 |
|--------------|---------|---------|---------|---------|

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Class B common stock | \$ 0.26 | \$ 0.26 | \$ 0.49 | \$ 0.47 |
|----------------------|---------|---------|---------|---------|

(1) Net income and common stock dividends for the six months ended November 28, 2009, have been adjusted for the dilutive impact of the conversion of our 8% notes.

(2) Net income and common stock dividends for the six months ended November 29, 2008, have been adjusted for the dilutive impact of the conversion of our 8% notes and 7<sup>3</sup>/<sub>4</sub>% notes.

Note: Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the first six months of fiscal 2010 and 2009 were 1,869,637 and 1,800,832, respectively.

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. SEGMENT REPORTING**

Based on our interpretation of FASB ASC 280-10, *Segment Reporting*, we have identified three reportable segments: the RF, Wireless & Power Division (RFPD), the Electron Device Group (EDG), and Canvys.

RFPD serves the global RF and wireless communications market, including infrastructure, and wireless networks, and the power conversion market.

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 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*):

|                                            | <b>Net<br/>Sales</b> | <b>Gross<br/>Profit</b> | <b>Assets (I)</b> |
|--------------------------------------------|----------------------|-------------------------|-------------------|
| <b><u>Second Quarter Fiscal 2010</u></b>   |                      |                         |                   |
| RFPD                                       | \$ 82,818            | \$ 18,141               | \$ 114,317        |
| EDG                                        | 20,121               | 7,366                   | 35,582            |
| Canvys                                     | 12,995               | 3,535                   | 13,340            |
| <b>Total</b>                               | <b>\$ 115,934</b>    | <b>\$ 29,042</b>        | <b>\$ 163,239</b> |
| <b><u>Second Quarter Fiscal 2009</u></b>   |                      |                         |                   |
| RFPD                                       | \$ 93,445            | \$ 21,263               | \$ 133,255        |
| EDG                                        | 22,210               | 7,811                   | 44,760            |
| Canvys                                     | 16,820               | 4,156                   | 20,280            |
| <b>Total</b>                               | <b>\$ 132,475</b>    | <b>\$ 33,230</b>        | <b>\$ 198,295</b> |
| <b><u>First Six Months Fiscal 2010</u></b> |                      |                         |                   |
| RFPD                                       | \$ 162,296           | \$ 35,543               | \$ 114,317        |
| EDG                                        | 38,917               | 13,633                  | 35,582            |
| Canvys                                     | 24,213               | 6,335                   | 13,340            |
| <b>Total</b>                               | <b>\$ 225,426</b>    | <b>\$ 55,511</b>        | <b>\$ 163,239</b> |
| <b><u>First Six Months Fiscal 2009</u></b> |                      |                         |                   |
| RFPD                                       | \$ 190,317           | \$ 42,169               | \$ 133,255        |
| EDG                                        | 47,261               | 15,440                  | 44,760            |
| Canvys                                     | 33,933               | 8,486                   | 20,280            |

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|       |            |           |            |
|-------|------------|-----------|------------|
| Total | \$ 271,511 | \$ 66,095 | \$ 198,295 |
|-------|------------|-----------|------------|

(1) *Includes accounts receivable, inventory, and goodwill.*

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                                         | <b>Three Months Ended</b>    |                              | <b>Six Months Ended</b>      |                              |
|-----------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                         | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> | <b>November 28,<br/>2009</b> | <b>November 29,<br/>2008</b> |
| Segment net sales                       | \$ 115,934                   | \$ 132,475                   | \$ 225,426                   | \$ 271,511                   |
| Corporate                               |                              | 76                           |                              | (13)                         |
| <b>Net sales</b>                        | <b>\$ 115,934</b>            | <b>\$ 132,551</b>            | <b>\$ 225,426</b>            | <b>\$ 271,498</b>            |
| Segment gross profit                    | \$ 29,042                    | \$ 33,230                    | \$ 55,511                    | \$ 66,095                    |
| Manufacturing variances and other costs | (1)                          | (52)                         | (1)                          | (198)                        |
| <b>Gross profit</b>                     | <b>\$ 29,041</b>             | <b>\$ 33,178</b>             | <b>\$ 55,510</b>             | <b>\$ 65,897</b>             |
|                                         | <b>November 28,<br/>2009</b> | <b>May 30,<br/>2009</b>      |                              |                              |
| Segment assets                          | \$ 163,239                   | \$ 169,845                   |                              |                              |
| Cash and cash equivalents               | 49,957                       | 43,887                       |                              |                              |
| Other current assets (1)                | 17,392                       | 11,605                       |                              |                              |
| Net property                            | 17,822                       | 19,371                       |                              |                              |
| Other assets (2)                        | 4,472                        | 4,107                        |                              |                              |
| <b>Total assets</b>                     | <b>\$ 252,882</b>            | <b>\$ 248,815</b>            |                              |                              |

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

(2) Other assets include investments and non-current deferred income taxes.

Geographic net sales information is primarily grouped by customer destination into four areas: North America; Asia/Pacific; Europe; and Latin America. Europe includes sales to the Middle East and Africa. Mexico is included in Latin America.

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

|                  | <b>Second Quarter</b> |                | <b>First Six Months</b> |                |
|------------------|-----------------------|----------------|-------------------------|----------------|
|                  | <b>FY 2010</b>        | <b>FY 2009</b> | <b>FY 2010</b>          | <b>FY 2009</b> |
| <b>Net Sales</b> |                       |                |                         |                |
| North America    | \$ 39,388             | \$ 47,766      | \$ 75,631               | \$ 98,269      |
| Asia/Pacific     | 43,513                | 44,995         | 85,903                  | 92,769         |
| Europe           | 29,287                | 34,928         | 56,081                  | 70,462         |
| Latin America    | 3,680                 | 4,414          | 7,808                   | 8,829          |
| Corporate        | 66                    | 448            | 3                       | 1,169          |

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|       |            |            |            |            |
|-------|------------|------------|------------|------------|
| Total | \$ 115,934 | \$ 132,551 | \$ 225,426 | \$ 271,498 |
|-------|------------|------------|------------|------------|

**Gross Profit**

|               |           |           |           |           |
|---------------|-----------|-----------|-----------|-----------|
| North America | \$ 10,257 | \$ 12,333 | \$ 19,529 | \$ 25,077 |
| Asia/Pacific  | 10,282    | 10,036    | 19,976    | 20,687    |
| Europe        | 7,892     | 9,012     | 15,027    | 18,456    |
| Latin America | 1,191     | 1,489     | 2,583     | 2,831     |
| Corporate     | (581)     | 308       | (1,605)   | (1,154)   |

|       |           |           |           |           |
|-------|-----------|-----------|-----------|-----------|
| Total | \$ 29,041 | \$ 33,178 | \$ 55,510 | \$ 65,897 |
|-------|-----------|-----------|-----------|-----------|

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 unallocated manufacturing overhead, customer discounts, and intercompany freight expenses.

**Table of Contents****RICHARDSON ELECTRONICS, LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. FAIR VALUE MEASUREMENTS**

FASB 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. We adopted the provisions of ASC 820 as of June 1, 2008, and the adoption of ASC 820 did not materially impact our financial condition, results of operations, or cash flow.

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 28, 2009, 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 28, 2009, were as follows (*in thousands*):

|                   | Level 1 | Level 2 | Level 3 |
|-------------------|---------|---------|---------|
| Equity securities | \$ 316  | \$      | \$      |

**12. RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB issued ASC update No 2009-13, *Revenue Recognition*, ( ASC Update No. 2009-13 ), which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, the guidance amends the criteria in FASB ASC Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, for separating consideration in multiple-deliverable arrangements. The guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. The guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, the guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. ASC Update No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact of the adoption of ASC Update No. 2009-13 on our consolidated financial statements.

**13. STOCK REPURCHASE PROGRAM**

Our Board of Directors approved a share repurchase program authorizing us to purchase shares of our outstanding common stock. Stock repurchases under this program may be made on the open market or in privately negotiated transactions, depending on factors including market conditions and other factors. During the second quarter of fiscal 2010, we did not repurchase any shares of common stock under the share repurchase program. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time.

During January 2010, we will be repurchasing approximately 300,000 shares of our common stock held in our Employee Stock Ownership Plan ( ESOP ) in a private transaction. The ESOP was terminated on October 15, 2009.

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**RICHARDSON ELECTRONICS, LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. SUBSEQUENT EVENTS**

We have evaluated our subsequent events through January 7, 2010, the date that our financial statements were issued. Other than as disclosed in Note 3 Discontinued Operations , Note 5 Intangible Assets , and in Note 7 Debt of our notes to unaudited condensed consolidated financial statements, there were no additional subsequent events that required adjustment to the financial statements or disclosures through January 7, 2010.

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### **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, 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 28, 2009, and November 29, 2008, as reflected in our unaudited condensed consolidated statements of operations and comprehensive income (loss).

**Liquidity, Financial Position, and Capital Resources** a discussion of our primary sources and uses of cash for the six month period ended November 28, 2009, and November 29, 2008, and a discussion of changes in our financial position.

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### **BUSINESS OVERVIEW**

Richardson Electronics, Ltd. ( we , us , our , and the Company ) 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 and a global distributor of electronic components to the radio frequency ( RF ), wireless and power conversion, electron device, and 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.

Our sales and marketing, product management, and purchasing functions are organized as follows:

*RF, Wireless & Power Division* ( RFPD ) serves the global RF and wireless communications market, including infrastructure, wireless networks, and the power conversion market.

*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 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 OPERATIONS**

#### **Overview Three Months Ended November 28, 2009**

Net sales for the second quarter of fiscal 2010 were \$115.9 million, down 12.5%, compared to net sales of \$132.6 million during the second quarter of last year.

Gross margin as a percent of net sales remained flat at 25.0% during the second quarter of fiscal 2010 and 2009.

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SG&A expenses decreased to \$23.7 million, or 20.4% of net sales, during the second quarter of fiscal 2010, compared to \$28.2 million, or 21.3% of net sales, during the second quarter of last year.

Operating income during the second quarter of fiscal 2010 improved to \$5.4 million, compared to operating income of \$5.0 million during the second quarter of last year.

Income from continuing operations during the second quarter of fiscal 2010 was \$4.3 million versus income from continuing operations of \$5.9 million during the second quarter of last year.

**Table of Contents****Overview Six Months Ended November 28, 2009**

Net sales for the first six months of fiscal 2010 were \$225.4 million, down 17.0%, compared to net sales of \$271.5 million during the first six months of last year.

Gross margin as a percent of net sales increased to 24.6% during the first six months of fiscal 2010, compared to 24.3% during the first six months of last year.

SG&A expenses decreased to \$46.6 million, or 20.7% of net sales, during the first six months of fiscal 2010, compared to \$56.4 million, or 20.8% of net sales, during the first six months of last year.

Operating income during the first six months of fiscal 2010 was \$8.9 million, or 3.9% of net sales, compared to operating income of \$9.4 million, or 3.5% of net sales, during the first six months of last year.

Income from continuing operations during the first six months of fiscal 2010 was \$6.2 million versus \$9.6 million during the first six months of last year.

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

During the second quarter and first six months of fiscal 2010, consolidated net sales decreased 12.5% and 17.0%, respectively, as all three segments experienced a net sales decline compared to prior year.

Net sales by segment and percent change during the second quarter and first six months of fiscal 2010 and 2009 were as follows (*in thousands*):

| <b><u>Net Sales</u></b>        | <b>FY 2010</b> | <b>FY 2009</b> | <b>% Change</b> |
|--------------------------------|----------------|----------------|-----------------|
| <b><u>Second Quarter</u></b>   |                |                |                 |
| RFPD                           | \$ 82,818      | \$ 93,445      | (11.4)%         |
| EDG                            | 20,121         | 22,210         | (9.4)%          |
| Canvys                         | 12,995         | 16,820         | (22.7)%         |
| Corporate                      |                | 76             |                 |
| Total                          | \$ 115,934     | \$ 132,551     | (12.5)%         |
| <b><u>First Six Months</u></b> |                |                |                 |
| RFPD                           | \$ 162,296     | \$ 190,317     | (14.7)%         |
| EDG                            | 38,917         | 47,261         | (17.7)%         |
| Canvys                         | 24,213         | 33,933         | (28.6)%         |
| Corporate                      |                | (13)           |                 |
| Total                          | \$ 225,426     | \$ 271,498     | (17.0)%         |

Consolidated gross profit decreased during the second quarter and first six months of fiscal 2010 as compared to the second quarter and first six months of fiscal 2009, primarily due to the decline in net sales. Consolidated gross margin as a percentage of net sales increased to 24.6% during the first six months of fiscal 2010, as compared to 24.3% during the first six months of fiscal 2009. The improvement in gross margin was due primarily to a shift in sales mix between product lines and geographic regions.

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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. Corporate gross profit includes certain freight costs and other miscellaneous charges.

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Gross profit by segment and percent of segment net sales during the second quarter and first six months of fiscal 2010 and 2009 were as follows (in thousands):

| <b>Gross Profit</b>            | <b>FY 2010</b> | <b>% of<br/>Net Sales</b> | <b>FY 2009</b> | <b>% of<br/>Net Sales</b> |
|--------------------------------|----------------|---------------------------|----------------|---------------------------|
| <b><u>Second Quarter</u></b>   |                |                           |                |                           |
| RFPD                           | \$ 18,141      | 21.9%                     | \$ 21,263      | 22.8%                     |
| EDG                            | 7,366          | 36.6%                     | 7,811          | 35.2%                     |
| Canvys                         | 3,535          | 27.2%                     | 4,156          | 24.7%                     |
| Corporate                      | (1)            |                           | (52)           |                           |
| Total                          | \$ 29,041      | 25.0%                     | \$ 33,178      | 25.0%                     |
| <b><u>First Six Months</u></b> |                |                           |                |                           |
| RFPD                           | \$ 35,543      | 21.9%                     | \$ 42,169      | 22.2%                     |
| EDG                            | 13,633         | 35.0%                     | 15,440         | 32.7%                     |
| Canvys                         | 6,335          | 26.2%                     | 8,486          | 25.0%                     |
| Corporate                      | (1)            |                           | (198)          |                           |
| Total                          | \$ 55,510      | 24.6%                     | \$ 65,897      | 24.3%                     |

***RF, Wireless & Power Division***

RFPD net sales decreased 11.4% and 14.7% to \$82.8 million and \$162.3 million during the second quarter and first six months of fiscal 2010, respectively, from \$93.4 million and \$190.3 million during the second quarter and first six months of fiscal 2009, respectively. Overall, net sales continue to be negatively impacted with declining demand reflecting the weak global economy. The decline in net sales included most product lines including power conversion, network access, passive/interconnect, and infrastructure products. Gross margin as a percent of net sales decreased to 21.9% during both the second quarter and first six months of fiscal 2010, respectively, from 22.8% and 22.2% during the second quarter and first six months of fiscal 2009, respectively, due primarily to a shift in sales mix between product lines and geographic regions.

***Electron Device Group***

EDG net sales decreased 9.4% and 17.7% to \$20.1 million and \$38.9 million during the second quarter and first six months of fiscal 2010, respectively, from \$22.2 million and \$47.3 million during the second quarter and first six months of fiscal 2009, respectively. The decline during both periods was due primarily to a decline in tube sales. Tube sales declined in North America during the second quarter and first six months of fiscal 2010 as compared to the second quarter and first six months of fiscal 2009. Gross margin as a percent of net sales increased to 36.6% and 35.0% during the second quarter and first six months of fiscal 2010, respectively, as compared to 35.2% and 32.7% during the second quarter and first six months of fiscal 2009, respectively, due primarily to a shift in sales mix between product lines and geographic regions.

***Canvys***

Canvys net sales decreased 22.7% and 28.6% to \$13.0 million and \$24.2 million during the second quarter and first six months of fiscal 2010, respectively, from \$16.8 million and \$33.9 million during the second quarter and first six months of fiscal 2009, respectively. Canvys net sales declined due to capital spending project delays within the healthcare and medical OEM sectors. Gross margin increased to 27.2% and 26.2% during the second quarter and first six months of fiscal 2010, respectively, from 24.7% and 25.0% during the second quarter and first six months of fiscal 2009, respectively, due primarily to improved operating efficiencies and increased focus on sales of our higher margin customized solutions.



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

Selling, general, and administrative expenses ( SG&A ) decreased \$4.5 million and \$9.8 million to \$23.7 million and \$46.6 million during the second quarter and first six months of fiscal 2010, respectively, from \$28.2 million and \$56.4 million during the second quarter and first six months of fiscal 2009, respectively. Severance expense recorded during the second quarter and first six months of 2010 was \$0.3 million and \$0.5 million, respectively. Severance expense recorded during the second quarter and first six months of 2009 was \$0.5 million and \$1.1 million, respectively. The decrease in SG&A expense during the second quarter and first six months of fiscal 2010 reflects our ongoing cost reduction initiatives including headcount reductions, significant reductions in discretionary spending, and re-negotiating contracts.

### ***Other (Income) Expense***

Other (income) expense was \$1.7 million and \$3.6 million of expense during the second quarter and first six months of fiscal 2010, respectively, as compared to \$1.4 million and \$1.5 million of income during the second quarter and first six months of fiscal 2009, respectively. The change to expense from income during the second quarter and first six months of fiscal 2010 was due primarily to unfavorable changes in foreign currency exchange rates and a gain on retirement of long-term debt. Other (income) expense included a foreign exchange loss of \$0.7 million and \$1.5 million during the second quarter and first six months of fiscal 2010, respectively, as compared to a foreign exchange gain of \$1.5 million and \$2.5 million during the second quarter and first six months of fiscal 2009, respectively. The second quarter and first six months of fiscal 2009 also included a gain on retirement of long-term debt of \$0.9 million.

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

The effective income tax rate from continuing operations during the second quarter and first six months of fiscal 2010 was a *tax benefit* of 16.8% and 17.6%, respectively, as compared to a *tax provision* of 6.7% and 11.9% for the second quarter and first six months of fiscal 2009, respectively.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the second quarter and first six months of fiscal 2010 resulted from our geographical distribution of taxable income or losses. The second quarter of fiscal 2010 included a benefit of approximately \$0.1 million related to prior year s income taxes of certain of our foreign jurisdictions and a benefit of approximately \$0.9 million of reserve reversals related to expiring statutes of limitations. The first six months of fiscal 2010 included a \$0.5 million benefit related to prior year s income taxes of certain of our foreign jurisdictions and a benefit of approximately \$1.4 million of reserve reversals related to expiring statutes of limitations.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the second quarter and first six months of fiscal 2009 resulted from our geographical distribution of taxable income or losses. The second quarter of fiscal 2009 included a tax benefit of less than \$0.1 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a provision of less than \$0.1 million related to prior year s income tax of one of our foreign jurisdictions. The first six months of fiscal 2009 included a tax benefit of \$0.9 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a provision of \$0.6 million related to prior year s income tax of one of our foreign jurisdictions.

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 year 2004. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years prior to fiscal year 2002. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal year 2002; in the Netherlands, Germany and Japan beginning in fiscal year 2004; and in China beginning in fiscal year 2006.

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As of November 28, 2009, our worldwide liability for uncertain tax positions, excluding interest and penalties, was \$3.4 million as compared to \$4.3 million as of May 30, 2009. 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 decreased in the three months ended November 28, 2009, primarily due to the expiration of certain statutes of limitation.

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 \$0.2 million due to the expiration of various statutes of limitations within the next 12 months.

### ***Discontinued operations***

See Note 3 Discontinued Operations of our unaudited condensed consolidated financial statements for additional discussion on the loss from discontinued operations.

### ***Net Income and Per Share Data***

Net income during the second quarter of fiscal 2010 was \$3.1 million, or \$0.18 per diluted common share and \$0.16 per Class B diluted common share as compared to net income of \$5.9 million during the second quarter of fiscal 2009, or \$0.31 per diluted common share and \$0.28 per Class B diluted common share. Net income during the first six months of fiscal 2010 was \$5.0 million, or \$0.28 per diluted common share and \$0.26 per Class B diluted common share as compared to net income of \$9.6 million during the first six months of fiscal 2009, or \$0.52 per diluted common share and \$0.47 per Class B diluted common share.

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

We have financed our growth and cash needs largely through income from operations, borrowings under the revolving credit facilities, issuance of convertible senior subordinated notes, and sale of assets. Liquidity is reduced by working capital requirements, debt service, capital expenditures, dividends, and business acquisitions. Liquidity is increased by proceeds from borrowings, disposition of businesses and assets, and improved working capital management.

Cash and cash equivalents were \$50.0 million as of November 28, 2009, as compared to \$43.9 million as of May 30, 2009.

### ***Cash Flows from Operating Activities***

Cash provided by operating activities during the first six months of fiscal 2010 was \$4.7 million, due primarily to lower inventory and accounts receivable balances and higher accrued liability balances, partially offset by lower accounts payable balances. 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. 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 accelerated cash collection efforts. The increase in accrued liabilities of \$1.0 million, excluding the impact of foreign currency exchange of \$0.6 million, during the first six months of fiscal 2010 was due primarily to the timing of payments. 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.

Cash provided by operating activities during the first six months of fiscal 2009 was \$3.6 million, due primarily to higher accounts payable balances and lower accounts receivable balances, partially offset by higher inventory balances and lower accrued liability balances. The increase in accounts payable balances of \$5.4 million, excluding the impact of foreign currency exchange of

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\$1.9 million, during the first six months of fiscal 2009 was due primarily to negotiating favorable payment terms with many of our vendors. The decline in accounts receivable balances of \$2.1 million, excluding the impact of foreign currency of \$7.3 million, during the first six months of fiscal 2009 was due primarily to a decline in sales volume. The increase in inventory balances of \$10.4 million, excluding the impact of foreign currency exchange of \$4.6 million, during the first six months of fiscal 2009 was due primarily to purchases of inventory necessary to support anticipated sales volume in future quarters. The decline in accrued liability balances of \$2.2 million, excluding the impact of foreign currency exchange of \$0.8 million, during the first six months of fiscal 2009 was due primarily to the timing and payment of accrued payroll and accrued taxes.

### ***Cash Flows from Investing Activities***

Net cash used in investing activities was \$0.5 million and \$0.6 million during the first six months of fiscal 2010 and 2009, respectively, was due primarily to capital expenditures.

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

Net cash used in financing activities of \$0.7 million during the first six months of fiscal 2010 was due to cash dividends paid. Net cash used in financing activities of \$3.1 million during the first six months of fiscal 2009 was due to primarily to the retirement of long-term debt and cash dividends paid.

As of November 28, 2009, we maintained \$52.4 million in long-term debt in the form of two series of convertible notes.

On December 9, 2009, we retired \$0.9 million of the 7<sup>3</sup>/<sub>4</sub> % convertible senior subordinated notes (7<sup>3</sup>/<sub>4</sub>% notes) at approximately 97% of par value, which resulted in a gain of less than \$0.1 million, net of deferred financing costs of less than \$0.1 million. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the \$0.9 million of the 7<sup>3</sup>/<sub>4</sub>% notes.

On December 11, 2009, we notified the holders of our 8% convertible senior subordinated notes (8% notes) that we elected to redeem at par value all \$7.7 million in aggregate principal outstanding. The 8% notes will be redeemed on January 11, 2010. The redemption of the 8% notes will result in a loss of approximately \$0.2 million due to the write-off of the remaining deferred financing fees associated with 8% notes. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the \$7.7 million of the 8% notes.

We entered into a \$40.0 million revolving credit agreement on July 27, 2007, which included a Euro sub-facility and a Singapore sub-facility. The U.S. facility is reduced by the amounts drawn on the Euro sub-facility and Singapore sub-facility. Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the total capacity was reduced from \$40.0 million to \$25.0 million. As of November 28, 2009, there were no amounts outstanding under the revolving credit agreement. Outstanding letters of credit were approximately \$0.1 million and we also had \$2.5 million reserved for usage on our commercial credit card program, leaving an unused line of \$22.4 million as of November 28, 2009. Based on our loan covenants, actual available credit as of November 28, 2009, was \$22.4 million. We were in compliance with our loan covenants as of November 28, 2009.

Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the definition of the leverage ratio has been modified to exclude goodwill impairment charges, severance expense, and inventory write-downs in the calculation of adjusted earnings before interest, taxes, depreciation, and amortization ( EBITDA ), for the fiscal year ended May 30, 2009. We were in compliance with our loan covenants as of May 30, 2009, without this amendment to our revolving credit agreement.

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We believe that the existing sources of liquidity, including current cash, as well as cash provided by operating activities, 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 29, 2010.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, we are not required to provide the information required by this Item.

### **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 28, 2009.

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 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are involved in several pending judicial proceedings concerning matters arising in the ordinary course of our business. We cannot predict the outcome of any pending legal matters, and an unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, results of operations, cash flows, and financial position.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K for the year ended May 30, 2009, which could materially affect our business, financial condition or future results. There have been no material changes in the risk factors from those described in our Annual Report.

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

At the annual meeting of stockholders held on October 13, 2009, two proposals were submitted to a vote of our stockholders: (1) to elect our directors; and (2) to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2010. Stockholders present in person or by proxy holding shares representing 41,516,286 votes out of a total of 45,349,354 votes entitled to be voted at the meeting, which was more than the number of votes necessary to constitute a quorum. The following table sets forth the results of the voting:

| <b>Proposal</b>                                         | <b>Number of<br/>Affirmative<br/>Votes</b> | <b>Withheld<br/>Authority</b> |                |                  |
|---------------------------------------------------------|--------------------------------------------|-------------------------------|----------------|------------------|
| <b>1. Election of Directors</b>                         |                                            |                               |                |                  |
| Edward J. Richardson                                    | 40,068,211                                 | 1,446,717                     |                |                  |
| Scott Hodes                                             | 33,401,385                                 | 8,113,543                     |                |                  |
| Samuel Rubinovitz                                       | 40,065,906                                 | 1,449,022                     |                |                  |
| Harold L. Purkey                                        | 40,067,706                                 | 1,447,222                     |                |                  |
| Ad Ketelaars                                            | 40,060,451                                 | 1,454,477                     |                |                  |
| John R. Peterson                                        | 40,959,663                                 | 555,265                       |                |                  |
| <b>Proposal</b>                                         | <b>For</b>                                 | <b>Against</b>                | <b>Abstain</b> | <b>Not Voted</b> |
| <b>2. Ratify the selection of Ernst &amp; Young LLP</b> | 41,341,068                                 | 173,074                       | 2,144          | 3,833,068        |

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

On January 6, 2010, we issued a press release reporting results for our second quarter ended November 28, 2009, 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.



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**SIGNATURES**

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

RICHARDSON ELECTRONICS, LTD.

Date: January 7, 2010

By: /s/ KATHLEEN S. DVORAK  
**Kathleen S. Dvorak**  
**Chief Financial Officer**  
(on behalf of the Registrant and as Principal Financial Officer)

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**Exhibit Index**

**(c) EXHIBITS**

| <b>Exhibit<br/>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 of 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 6, 2010.                                                                                                                                                                                                     |