

RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
January 10, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 1, 2018

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)

Delaware 36-2096643
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

40W267 Keslinger Road, P.O. Box 393

LaFox, Illinois 60147-0393

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 8, 2019, there were outstanding 10,952,601 shares of Common Stock, \$0.05 par value and 2,096,919 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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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Richardson Electronics, Ltd.

Consolidated Balance Sheets

(in thousands, except per share amounts)

	Unaudited December 1, 2018	Audited June 2, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,859	\$ 60,465
Accounts receivable, less allowance of \$333 and \$309, respectively	22,478	22,892
Inventories, net	51,649	50,720
Prepaid expenses and other assets	3,964	3,747
Investments - current	5,300	—
Total current assets	131,250	137,824
Non-current assets:		
Property, plant and equipment, net	19,230	18,232
Goodwill	6,332	6,332
Intangible assets, net	2,887	3,014
Non-current deferred income taxes	744	927
Total non-current assets	29,193	28,505
Total assets	\$ 160,443	\$ 166,329
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 15,594	\$ 19,603
Accrued liabilities	11,056	10,343
Total current liabilities	26,650	29,946
Non-current liabilities:		
Non-current deferred income tax liabilities	281	281
Other non-current liabilities	921	921
Total non-current liabilities	1,202	1,202
Total liabilities	27,852	31,148
Stockholders' equity		
Common stock, \$0.05 par value; issued and outstanding 10,953 shares at December 1, 2018 and 10,806 shares at June 2, 2018	547	540
Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,097 shares at December 1, 2018 and 2,137 shares at June 2, 2018	105	107
Preferred stock, \$1.00 par value, no shares issued	—	—
Additional paid-in-capital	60,654	60,061
Common stock in treasury, at cost, no shares at December 1, 2018 and June 2, 2018	—	—
Retained earnings	68,700	70,107
Accumulated other comprehensive income	2,585	4,366

Total stockholders' equity	132,591	135,181
Total liabilities and stockholders' equity	\$ 160,443	\$ 166,329

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Richardson Electronics, Ltd.

Unaudited Consolidated Statements of Comprehensive (Loss) Income

(in thousands, except per share amounts)

	Three Months		Six Months Ended	
	Ended December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Statements of Comprehensive (Loss) Income				
Net sales	\$41,314	\$ 39,082	\$85,471	\$ 76,077
Cost of sales	28,343	25,708	58,547	50,555
Gross profit	12,971	13,374	26,924	25,522
Selling, general and administrative expenses	13,425	12,602	26,524	24,926
Gain on disposal of assets	—	—	—	(191)
Operating (loss) income	(454)	772	400	787
Other (income) expense:				
Investment/interest income	(121)	(36)	(247)	(170)
Foreign exchange (gain) loss	(211)	115	75	316
Other, net	4	(11)	(4)	(15)
Total other (income) expense	(328)	68	(176)	131
(Loss) income from continuing operations before income taxes	(126)	704	576	656
Income tax provision	178	532	449	596
(Loss) income from continuing operations	(304)	172	127	60
Income from discontinued operations	—	1,496	—	1,496
Net (loss) income	(304)	1,668	127	1,556
Foreign currency translation (loss) gain, net of tax	(1,041)	230	(1,781)	2,351
Fair value adjustments on investments loss	—	48	—	34
Comprehensive (loss) income	\$(1,345)	\$ 1,946	\$(1,654)	\$ 3,941
Net (loss) income per Common share - Basic:				
(Loss) income from continuing operations	\$(0.02)	\$ 0.01	\$0.01	\$ —
Income from discontinued operations	—	0.12	—	0.12
Total net (loss) income per Common share - Basic	\$(0.02)	\$ 0.13	\$0.01	\$ 0.12
Net (loss) income per Class B common share - Basic:				
(Loss) income from continuing operations	\$(0.02)	\$ 0.01	\$0.01	\$ —
Income from discontinued operations	—	0.11	—	0.11
Total net (loss) income per Class B common share - Basic	\$(0.02)	\$ 0.12	\$0.01	\$ 0.11
Net (loss) income per Common share - Diluted:				
(Loss) income from continuing operations	\$(0.02)	\$ 0.01	\$0.01	\$ —
Income from discontinued operations	—	0.12	—	0.12
Total net (loss) income per Common share - Diluted	\$(0.02)	\$ 0.13	\$0.01	\$ 0.12
Net (loss) income per Class B common share - Diluted:				
(Loss) income from continuing operations	\$(0.02)	\$ 0.01	\$0.01	\$ —
Income from discontinued operations	—	0.11	—	0.11
Total net (loss) income per Class B common share - Diluted	\$(0.02)	\$ 0.12	\$0.01	\$ 0.11
Weighted average number of shares:				

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Common shares – Basic	10,952	10,755	10,890	10,734
Class B common shares – Basic	2,097	2,137	2,114	2,137
Common shares – Diluted	10,952	10,789	11,053	10,764
Class B common shares – Diluted	2,097	2,137	2,114	2,137
Dividends per common share	\$0.060	\$ 0.060	\$0.120	\$ 0.120
Dividends per Class B common share	\$0.054	\$ 0.054	\$0.108	\$ 0.108

Richardson Electronics, Ltd.

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Three Months		Six Months Ended	
	Ended December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Operating activities:				
Net (loss) income	\$(304)	\$ 1,668	\$ 127	\$ 1,556
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:				
Depreciation and amortization	792	735	1,556	1,467
Inventory provisions	150	125	365	287
Loss (gain) on sale of investments	—	1	—	(24)
Gain on disposal of assets	—	—	—	(191)
Share-based compensation expense	230	208	395	309
Deferred income taxes	97	66	155	62
Change in assets and liabilities:				
Accounts receivable	100	(1,735)	(98)	312
Inventories	(1,908)	(2,021)	(1,831)	(4,634)
Prepaid expenses and other assets	(319)	(357)	(282)	(615)
Accounts payable	1,538	1,757	(3,881)	(998)
Accrued liabilities	344	(517)	571	209
Other	161	264	174	(3)
Net cash provided by (used in) operating activities	881	194	(2,749)	(2,263)
Investing activities:				
Capital expenditures	(1,120)	(1,720)	(2,192)	(2,735)
Proceeds from sale of assets	—	—	—	276
Proceeds from maturity of investments	—	4,177	—	8,177
Purchases of investments	(3,000)	(3,943)	(5,300)	(3,943)
Proceeds from sales of available-for-sale securities	—	114	—	265
Purchases of available-for-sale securities	—	(114)	—	(265)
Other	—	(2)	—	(5)
Net cash (used in) provided by investing activities	(4,120)	(1,488)	(7,492)	1,770
Financing activities:				
Proceeds from issuance of common stock	11	—	203	—
Cash dividends paid	(770)	(763)	(1,534)	(1,521)
Net cash used in financing activities	(759)	(763)	(1,331)	(1,521)
Effect of exchange rate changes on cash and cash equivalents	(621)	81	(1,034)	1,140
Decrease in cash and cash equivalents	(4,619)	(1,976)	(12,606)	(874)
Cash and cash equivalents at beginning of period	52,478	56,429	60,465	55,327
Cash and cash equivalents at end of period	\$47,859	\$ 54,453	\$47,859	\$ 54,453

Richardson Electronics, Ltd.

Unaudited Consolidated Statement of Stockholders' Equity

(in thousands, except per share amounts)

	Class B	Par	Value	Additional Paid In Capital	Common Stock in Treasury	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance June 2, 2018:	10,806	2,137	\$ 647	\$ 60,061	\$ —	\$ 70,107	\$ 4,366	\$ 135,181
Comprehensive (loss) income								
Net income	—	—	—	—	—	127	—	127
Foreign currency translation	—	—	—	—	—	—	(1,781)	(1,781)
Share-based compensation:								
Restricted stock	—	—	—	136	—	—	—	136
Stock options	—	—	—	259	—	—	—	259
Common stock:								
Options exercised	37	—	2	201	—	—	—	203
Restricted stock issuance	70	—	3	(3)	—	—	—	—
Converted Class B to common	40	(40)	—	—	—	—	—	—
Dividends paid to:								
Common (\$0.12 per share)	—	—	—	—	—	(1,306)	—	(1,306)
Class B (\$0.108 per share)	—	—	—	—	—	(228)	—	(228)
Balance December 1, 2018:	10,953	2,097	\$ 652	\$ 60,654	\$ —	\$ 68,700	\$ 2,585	\$ 132,591

RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value flat panel detector solutions, replacement parts, tubes and service training for diagnostic imaging equipment; and customized display solutions. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. The Company's strategy is to provide specialized technical expertise and "engineered solutions" based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair through its global infrastructure.

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

We have three operating and reportable segments, which we define as follows:

Power and Microwave Technologies Group ("PMT") combines our core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, all-in-ones, specialized cabinet finishes and application specific software packages and certification services. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, refurbishes and distributes high value replacement parts for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include Diagnostic Imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

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

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The second quarter of fiscal 2019 and fiscal 2018 both contained 13 weeks. The first six months of fiscal 2019 and fiscal 2018 contained 26 and 27 weeks, respectively.

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the three and six months ended December 1, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending June 1, 2019.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended June 2, 2018, that we filed on August 2, 2018.

3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Inventories, net: Our consolidated inventories were stated at the lower of cost and net realizable value, generally using a weighted-average cost method. Our net inventories include approximately \$44.4 million of finished goods, \$5.3 million of raw materials and \$1.9 million of work-in-progress as of December 1, 2018, as compared to approximately \$42.6 million of finished goods, \$5.7 million of raw materials and \$2.4 million of work-in-progress as of June 2, 2018.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs. Provisions for obsolete or slow moving inventories are recorded based upon regular analysis of stock rotation privileges, obsolescence, the exiting of certain markets and assumptions about future demand and market conditions. If future demand changes in the industry, or market conditions differ from management's estimates, additional provisions may be necessary. Inventory reserves were approximately \$4.3 million as of December 1, 2018 and \$4.0 million as of June 2, 2018.

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers, which amends guidance for revenue recognition. ASU 2014-09 is principles based guidance that can be applied to all contracts with customers, enhancing comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance details the steps entities should apply to achieve the core principle. In August 2015, the FASB issued an amendment to defer the effective date for all entities by one year. For public entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. Companies have the option of using either a full or modified retrospective approach in applying this standard. During fiscal 2016 and 2017, the FASB issued four additional updates which further clarify the guidance provided in ASU 2014-09.

Effective June 3, 2018, the Company adopted the standard using the modified retrospective method to all contracts. As a result, financial information for the reporting period beginning June 3, 2018 was reported under the new standard, while comparative financial information has not been adjusted and continues to be reported in accordance with the previous standard. The adoption of this standard did not impact the timing of revenue recognition for our customer sales. The adoption did not result in the recognition of a cumulative adjustment to beginning retained earnings, nor did it have a material impact on the consolidated financial statements. For the Company, the most significant impact of the new standard is the addition of required disclosures within the notes to the financial

statements.

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

Goodwill and Intangible Assets: We test goodwill for impairment annually and whenever events or circumstances indicate an impairment may have occurred, such as a significant adverse change in the business climate, loss of key personnel or a decision to sell or dispose of a reporting unit.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the first day of our fourth quarter as the measurement date. If after reviewing the totality of events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then we test for impairment through the application of a fair value based test. We estimate the fair value of each of our reporting units based on projected future operating results, market approach and discounted cash flows.

Intangible assets are initially recorded at their fair market values determined on quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized over their useful lives either on a straight-line basis or over their projected future cash flows and are tested for impairment when events or changes in circumstances occur that indicate possible impairment. Our intangible assets represent the fair value for trade name, customer relationships, non-compete agreements and technology acquired in connection with our acquisitions.

Income Taxes: We recognize deferred tax assets and liabilities based on the differences between financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and determine the need for a valuation allowance based on a number of factors, including both positive and negative evidence. These factors include historical taxable income or loss, projected future taxable income or loss, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. In circumstances where we, or any of our affiliates, have incurred three years of cumulative losses which constitute significant negative evidence, positive evidence of equal or greater significance is needed to overcome the negative evidence before a tax benefit is recognized for deductible temporary differences and loss carryforwards.

Accrued Liabilities: Accrued liabilities consist of the following (in thousands):

	December 1, 2018	June 2, 2018
Compensation and payroll taxes	\$ 2,840	\$3,449
Accrued severance	591	454
Professional fees	628	527
Deferred revenue	2,112	1,888
Other accrued expenses	4,885	4,025
Accrued Liabilities	\$ 11,056	\$ 10,343

4. REVENUE RECOGNITION

Richardson has a number of defined revenue streams across our reportable segments. For each of these revenue streams, all products are typically sold directly by the Company to the end customer. Distribution is the Company's largest revenue stream. The distribution business does not include a separate service bundled with the product sold or sold on top of the product. Distribution typically includes the sale of products purchased from our suppliers, stocked in our warehouses and then sold to our customers. Revenue is recognized when control of the promised goods is transferred to our customers, which is simultaneous with when the title transfers to the customer, in an amount that reflects the transaction price consideration that we expect to receive in exchange for those goods. Control refers to the ability of the customer to direct the use of, and obtain substantially all of, the remaining benefits from the goods. Our transaction price consideration is fixed, unless otherwise disclosed below as variable consideration. Generally, our contracts require our customers to pay for goods after we deliver products to them. Terms are generally on open account, payable net 30 days in North America, and vary throughout Asia/Pacific, Europe and Latin America.

The Company also sells products that are manufactured or assembled in our manufacturing facility. These products can be either built to the customer's prints or designs or are products that we stock in our warehouse to sell to any customer that places an order. The manufacturing business does not include a separate service bundled with the product sold or sold on top of the product.

The Company recognizes services revenue when the repair, installation or training is performed. Based on our analysis of services revenue, ASU 2014-09 has an immaterial impact on the timing, amount or characterization of services revenue recognized by the Company. The services we provide are relatively short in duration, typically completed in one to two weeks, thus, at each reporting date, the amount of unbilled work performed is insignificant. The services revenue has consistently accounted for less than 5% of the Company's total revenues and is expected to continue at that level.

Contracts with customers

A contract is an agreement between two or more parties that creates enforceable rights and obligations. A revenue contract exists for us once a customer purchase order is received, reviewed and accepted. Prior to accepting a customer purchase order, we review the credit worthiness of the customer. Purchase orders are deemed to meet the collectability criterion once the customer's credit is approved. Contract assets arise when the Company transfers a good or performs a service in advance of receiving consideration from the customer and contract liabilities arise when the Company receives consideration from its customer in advance of performance.

Contract Liabilities: Contract liabilities and revenue recognized were as follows (in thousands):

	June 2,	Revenue	December
	2018	Recognized	1,
	2018	Additions	2018
Contract liabilities (deferred revenue)	\$ 1,888	\$ 2,043	\$ (1,819) \$ 2,112

The Company receives advances or deposits from our customers before revenue is recognized, resulting in contract liabilities. Contract liabilities are included in accrued liabilities in the consolidated balance sheets.

Performance obligations and satisfaction of performance obligation in the contract

Each accepted purchase order identifies a distinct good or service as the performance obligation. The goods are generally standard products we purchased from a supplier and stocked on our shelves. They can also be customized products purchased from a supplier or products that are customized or have value added to them in-house prior to shipping to the customer, but only after a purchase order is received. Our contracts for customized products generally include termination provisions if a customer cancels their order. However, we recognize revenue at a point in time because the termination provisions do not require, upon cancellation, the customer to pay fees that are commensurate with the work performed. Each purchase order explicitly states the goods or service that we promise to transfer to the customer. The promises to the customer are limited to only those goods or service. The performance obligation is our promise to deliver both goods that were produced by the Company and resale of goods that we purchase from our suppliers. Our shipping and handling activities for destination shipments are performed prior to the customer obtaining control. As such, they are not a separate promised service. For shipping point, Richardson is making the election under ASC 606-10-25-18B to account for shipping and handling as activities to fulfill the promise to transfer the goods. The goods we provide to our customers are distinct in that our customers benefit from the goods we sell them through use in their own processes. Our customers are generally not resellers, but rather businesses that incorporate our products into their processes from which they generate an economic benefit. The goods are also distinct in that each item sold to the customer is clearly identified on both the purchase order and resulting invoice. Each product we sell benefits the customer independently of the other products. Each item on each purchase order from the customer can be used by the customer unrelated to any other products we provide to the customer.

Determine the transaction price and variable consideration

The transaction price for each product is the amount invoiced to the customer. Each product on a purchase order is a separate performance obligation with an observable standalone selling price. The transaction price is a fixed price per unit, except for the variable consideration. The Company elects to exclude sales tax from the transaction price. With the exception of sale with right of return, variable consideration has been identified only in the form of customer early payment discounts, which are immaterial to the Company's financial statements. Although there is not a material impact on our financial statements, we will continue to account for customer discounts when they are taken by the customer and address further if they grow.

Recognize revenue when the entity satisfies a performance obligation

We recognize revenue when title transfers to the customer, at the shipping point for FOB shipping contracts and at the customer's delivery location for FOB destination contracts. We believe that the transfer of title best represents when the customer obtains control of the goods. Prior to that date, we do not have right to payment, and the significant risks and rewards remain with us. The significant risks and rewards of ownership of the inventory transfer simultaneously with the transfer of title. The customer's acceptance of the goods is based on objective measurements, not subjective.

Additional considerations

Sale with right of return:

Our return policy is available to customers in our terms and conditions found on our website www.rell.com. The policy varies by the different businesses we engage in. The Company allows returns with prior written authorization and we allow returns within 10 days of shipment for replacement parts.

The Company maintains a reserve for returns based on historical trends that covers all contracts and revenue streams using the expected value method because we have a large number of contracts with similar characteristics, which is considered variable consideration. The reserve for returns creates a refund liability on our balance sheet as a contra Trade Accounts Receivable as well as an asset in inventory. We value the inventory at cost due to there being minimal or no costs to the Company as we generally require the customer to pay freight and we typically do not have costs associated with activities such as relabeling or repackaging.

The reserve is considered immaterial at each balance sheet date for further consideration. Returns for defective product are typically covered by our supplier's warranty, thus, returns for defective product are not factored into our reserve.

Warranties:

All warranties are considered assurance warranties in that the goods are warranted to work as intended for the period covered. For products the Company does not offer a warranty, these products are covered by our suppliers. We generally offer a one to three year warranty that assures that the goods will perform as intended. The length of the warranty is typical to the industry and generally follows our supplier's warranty period. This is due to that, in most instances, the Company's warranty is not utilized due to our supplier's warranty still covers the necessary repairs or replacements. We also offer a thirty-day assurance warranty on parts sales that parts will work as intended. See Note 7, Warranties, for further information regarding the impact of warranties concerning ASU 2014-09.

Principal versus agent considerations:

Principal versus agent guidance was considered for customized products that are provided by our suppliers versus in-house. Richardson acts as the principal as we are responsible for satisfying the performance obligation. We have primary responsibility for fulfilling the contract, we have inventory risk prior to delivery to our customer, we establish prices, our consideration is not in the form of a commission and we bear the credit risk. The Company recognizes revenue in the gross amount of consideration.

See Note 11, Segment Reporting, for a disaggregation of revenue by reportable segment and geographic region, which represents how our chief operating decision maker reviews information internally to evaluate our financial performance and to make resource allocation and other decisions for the Company.

5. GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill was \$6.3 million as of December 1, 2018 and June 2, 2018. The goodwill balance in its entirety relates to our IMES reporting unit, which is included in our Healthcare segment.

Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment, using the first day of our fourth quarter as the measurement date. We test goodwill for impairment annually and whenever events or circumstances indicate an impairment may have occurred, such as a significant adverse change in the business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel or a decision to sell or dispose of a reporting unit.

During the first six months of fiscal 2019, no events or circumstances were identified that would indicate impairment may have occurred. Although we believe our projected future operating results and cash flows and related estimates regarding fair values were based on reasonable assumptions, historically, projected operating results and cash flows have not always been achieved. Changes in any of the significant assumptions used, including if the Company does not successfully achieve its operating plan, which is largely dependent on sales from new product offerings, can materially affect the expected cash flows, and such impacts could result in a material non-cash impairment charge of goodwill and other long lived assets.

Potential events or changes in circumstances that could reasonably be expected to negatively affect key assumptions are deterioration in general market conditions or the environment in which the reporting unit or entity operates, an increased competitive environment in which the reporting unit or entity operates or other relevant entity-specific events such as market acceptance of our new CT tubes and other new product offerings, approvals to sell in foreign markets and changes in management or key personnel.

Our intangible assets represent the fair value for trade name, customer relationships, non-compete agreements and technology acquired in connection with our acquisitions. Intangible assets subject to amortization are as follows (in thousands):

	December 1, 2018	June 2, 2018
Gross Amounts:		
Trade Name	\$ 659	\$659
Customer Relationships ⁽¹⁾	3,396	3,408
Non-compete Agreements	177	177
Technology	230	230
Total Gross Amounts	\$ 4,462	\$4,474
Accumulated Amortization:		
Trade Name	\$ 655	\$651
Customer Relationships	703	617
Non-compete Agreements	127	115
Technology	90	77
Total Accumulated Amortization	\$ 1,575	\$1,460
Net Intangibles	\$ 2,887	\$3,014

(1) Change from prior periods reflect impact of foreign currency translation.

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

	Amortization
Fiscal Year	Expense
Remaining 2019	\$ 123
2020	257
2021	245
2022	252
2023	245
Thereafter	1,765
Total amortization expense	\$ 2,887

The weighted average number of years of amortization expense remaining is 15.1 years.

6. INVESTMENTS

As of December 1, 2018, we had \$5.3 million invested in certificate of deposits (“CDs”) which mature in less than twelve months. The fair value of these investments was equal to the face value of the CDs.

As of June 2, 2018, we had no investments.

7. WARRANTIES

All warranties are considered assurance warranties in that the goods are warranted to work as intended for the period covered. For products the Company does not offer a warranty, these products are covered by our suppliers. We generally offer a one to three year warranty that assures that the goods will perform as intended.

We estimate the cost to perform under the warranty obligation and recognize this estimated cost at the time of the related product sale. We record expense related to our warranty obligations as cost of sales in our consolidated statements of comprehensive (loss) income. Each quarter, we assess actual warranty costs incurred on a product-by-product basis and compare the warranty costs to our estimated warranty obligation. With respect to new products, estimates are based generally on knowledge of the products, the extended warranty period and warranty experience.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience and other available evidence. Warranty reserves were approximately \$0.2 million as of December 1, 2018 and \$0.1 million as of June 2, 2018.

8. LEASE OBLIGATIONS, OTHER COMMITMENTS AND CONTINGENCIES

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense was \$0.9 million during the first six months of fiscal 2019 and \$0.9 million during the first six months of fiscal 2018. Our future lease commitments for minimum rentals, including common area maintenance charges and

property taxes during the next five years are as follows (in thousands):

Fiscal Year	Payments
Remaining 2019	\$ 850
2020	1,263
2021	869
2022	172
2023	34
Thereafter	90

In February 2016, the FASB issued ASU 2016-02 (“ASU 2016-02”), Leases. ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

The new standard is effective for the Company on June 2, 2019, with early adoption permitted. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. We are in the process of evaluating the impact that the new standard will have on the consolidated financial statements. We expect that this standard will have a material effect on our financial statements. While we continue to assess all of the effects of adoption, we are unable to quantify the impact at this time. We currently believe the most significant effects relate to the recognition of new ROU assets and lease liabilities on our balance sheet for our operating leases and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption.

9. INCOME TAXES

We recorded an income tax provision of \$0.4 million and \$0.6 million for the first six months of fiscal 2019 and the first six months of fiscal 2018, respectively. The effective income tax rate during the first six months of fiscal 2019 was a tax provision of 77.9%, as compared to a tax provision of 90.9% during the first six months of fiscal 2018. The difference in rate during the first six months of fiscal 2019, as compared to the first six months of fiscal 2018, reflects the changes in our geographical distribution of income (loss), the recording of provision to return true-ups of various foreign jurisdictions and our positions with respect to ASC 740-30, Income Taxes - Other Considerations or Special Areas. The 77.9% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss) and the movement of the valuation allowance against our U.S. state and federal net deferred tax assets.

On December 22, 2017, the U.S. government enacted new tax legislation, Tax Cuts and Jobs Act (the “Act”). The primary provisions of the Act expected to impact the Company in fiscal 2019 are a reduction to the U.S. corporate income tax rate from 35% to 21%. The 21% corporate income tax rate was effective January 1, 2018 and is in effect for the Company’s fiscal 2019 tax year.

The tax impact recorded for the Act for fiscal 2018 was provisional as outlined below and may change. The Company completed a preliminary assessment of earnings that could be repatriated based on reinvestment needs of non-U.S. operations and earnings available for repatriation. The estimated withholding tax that would be incurred from the repatriation of those earnings was included in fiscal 2018 provisional income tax expense. The Company continues to analyze the provisions of the Act addressing the net deferred tax asset remeasurement and its calculations, the deemed earnings repatriation, including the determination of undistributed non-U.S. earnings, and evaluate potential Company actions. In addition, the Company continues to monitor potential legislative action and regulatory interpretations of the Act.

The Company is subject to additional requirements of the Act beginning in fiscal 2019. Those provisions include a tax on global intangible low-taxed income (“GILTI”), a tax determined by base erosion and anti-avoidance tax (“BEAT”)

related to certain payments between a U.S. corporation and foreign related entities, a limitation of certain executive compensation and a deduction for foreign derived intangible income. The Company has not recorded any tax liability/(benefit) for these provisions during the first six months of fiscal 2019 due to tax attributes or credits anticipated to offset these liabilities. The Company also has not determined its accounting policy to treat the taxes due on GILTI as a period cost or include in the determination of deferred taxes. The Company does not anticipate being subject to BEAT provision due to the revenue thresholds.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118 that allows for a measurement period up to one year after the enactment date of the Act to complete the accounting requirements. The Company will complete the adjustments related to the Act within the allowed period.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2008 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2012.

We have historically determined that certain undistributed earnings of our foreign subsidiaries, to the extent of cash available, will be repatriated to the U.S. Due to the deemed repatriation tax, the untaxed outside basis difference for which the historic balance has primarily related has been reduced. Accordingly, we have provided a deferred tax liability totaling \$0.3 million as of December 1, 2018 on foreign earnings of \$26.2 million. As of June 2, 2018, the deferred tax liability totaled \$0.3 million on foreign earnings of \$28.6 million. The change relates to actual cash distributions from Japan and Korea. Due to various tax attributes that are continuously changing, it is not practicable to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of December 1, 2018, our worldwide liability for uncertain tax positions related to continuing operations was \$0.1 million, excluding interest and penalties, as compared to \$0.1 million liabilities for uncertain tax positions as of June 2, 2018. There was no change in recorded uncertain tax positions during the first six months of fiscal year 2019. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the consolidated statements of comprehensive (loss) income.

The valuation allowance against the net deferred tax assets that will more likely than not be realized was \$9.1 million as of June 2, 2018. The valuation allowance against the net deferred tax assets was \$9.2 million as of December 1, 2018 as \$0.1 million of additional domestic federal and state net deferred tax assets were generated during the first two quarters of fiscal year 2019 from losses in the U.S. jurisdiction. A full valuation allowance on the U.S. and state deferred tax assets will be maintained until sufficient positive evidence related to sources of future taxable income exists to support a reversal of the valuation allowance. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

10. CALCULATION OF EARNINGS PER SHARE

We have authorized 17,000,000 shares of common stock, and 3,000,000 shares of Class B common stock. The Class B common stock has 10 votes per share and has transferability restrictions; however, Class B common stock may be converted into common stock on a share-for-share basis at any time. With respect to dividends and distributions, shares of common stock and Class B common stock rank equally and have the same rights, except that Class B common stock cash dividends are limited to 90% of the amount of Class A common stock cash dividends.

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

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

	Three Months Ended			
	December 1, 2018		December 2, 2017	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Net (loss) income from continuing operations	\$(304)	\$(304)	\$172	\$172
Less dividends:				
Common stock	658	658	647	647
Class B common stock	112	112	116	116
Undistributed losses	\$(1,074)	\$(1,074)	\$(591)	\$(591)
Common stock undistributed losses	\$(916)	\$(916)	\$(501)	\$(501)
Class B common stock undistributed losses	(158)	(158)	(90)	(90)
Total undistributed losses	\$(1,074)	\$(1,074)	\$(591)	\$(591)
Income from discontinued operations	\$—	\$—	\$1,496	\$1,496
Less dividends:				
Common stock	—	—	647	647
Class B common stock	—	—	116	116
Undistributed earnings	\$—	\$—	\$733	\$733
Common stock undistributed earnings	\$—	\$—	\$622	\$622
Class B common stock undistributed earnings	—	—	111	111
Total undistributed earnings	\$—	\$—	\$733	\$733
Net (loss) income	\$(304)	\$(304)	\$1,668	\$1,668
Less dividends:				
Common stock	658	658	647	647
Class B common stock	112	112	116	116
Undistributed (losses) earnings	\$(1,074)	\$(1,074)	\$905	\$905
Common stock undistributed (losses) earnings	\$(916)	\$(916)	\$768	\$768
Class B common stock undistributed (losses) earnings	(158)	(158)	137	137
Total undistributed (losses) earnings	\$(1,074)	\$(1,074)	\$905	\$905
Denominator for Basic and Diluted EPS:				
Common stock weighted average shares	10,952	10,952	10,755	10,755
Class B common stock weighted average shares, and				
shares under if-converted method for diluted EPS	2,097	2,097	2,137	2,137
Effect of dilutive securities				
Dilutive stock options		—		34
Denominator for diluted EPS adjusted for weighted				
average shares and assumed conversions		13,049		12,926
Net (loss) income from continuing operations per share:				
Common stock	\$(0.02)	\$(0.02)	\$0.01	\$0.01
Class B common stock	\$(0.02)	\$(0.02)	\$0.01	\$0.01
Income from discontinued operations per share:				
Common stock	\$—	\$—	\$0.12	\$0.12
Class B common stock	\$—	\$—	\$0.11	\$0.11
Net (loss) income per share:				
Common stock	\$(0.02)	\$(0.02)	\$0.13	\$0.13

Class B common stock

\$ (0.02) \$ (0.02) \$ 0.12 \$ 0.12

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2019 were 117.

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	Six Months Ended			
	December 1, 2018		December 2, 2017	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Income from continuing operations	\$ 127	\$ 127	\$ 60	\$ 60
Less dividends:				
Common stock	1,306	1,306	1,290	1,290
Class B common stock	228	228	231	231
Undistributed losses	\$(1,407)	\$(1,407)	\$(1,461)	\$(1,461)
Common stock undistributed losses	\$(1,198)	\$(1,200)	\$(1,239)	\$(1,239)
Class B common stock undistributed losses	(209)	(207)	(222)	(222)
Total undistributed losses	\$(1,407)	\$(1,407)	\$(1,461)	\$(1,461)
Income from discontinued operations	\$—	\$—	\$ 1,496	\$ 1,496
Less dividends:				
Common stock	—	—	1,290	1,290
Class B common stock	—	—	231	231
Undistributed losses	\$—	\$—	\$(25)	\$(25)
Common stock undistributed losses	\$—	\$—	\$(21)	\$(21)
Class B common stock undistributed losses	—	—	(4)	(4)
Total undistributed losses	\$—	\$—	\$(25)	\$(25)
Net income	\$ 127	\$ 127	\$ 1,556	\$ 1,556
Less dividends:				
Common stock	1,306	1,306	1,290	1,290
Class B common stock	228	228	231	231
Undistributed (losses) earnings	\$(1,407)	\$(1,407)	\$ 35	\$ 35
Common stock undistributed (losses) earnings	\$(1,198)	\$(1,200)	\$ 30	\$ 30
Class B common stock undistributed (losses) earnings	(209)	(207)	5	5
Total undistributed (losses) earnings	\$(1,407)	\$(1,407)	\$ 35	\$ 35
Denominator for basic and diluted EPS:				
Common stock weighted average shares	10,890	10,890	10,734	10,734
Class B common stock weighted average shares, and				
shares under if-converted method for diluted EPS	2,114	2,114	2,137	2,137
Effect of dilutive securities				
Dilutive stock options		163		30
Denominator for diluted EPS adjusted for weighted				
average shares and assumed conversions		13,167		12,901
Income from continuing operations per share:				
Common stock	\$ 0.01	\$ 0.01	\$—	\$—
Class B common stock	\$ 0.01	\$ 0.01	\$—	\$—
Income from discontinued operations per share:				
Common stock	\$—	\$—	\$ 0.12	\$ 0.12
Class B common stock	\$—	\$—	\$ 0.11	\$ 0.11
Net income per share:				
Common stock	\$ 0.01	\$ 0.01	\$ 0.12	\$ 0.12
Class B common stock	\$ 0.01	\$ 0.01	\$ 0.11	\$ 0.11

11. SEGMENT REPORTING

In accordance with ASC 280-10, Segment Reporting, we have identified three operating and reportable segments as follows:

Power and Microwave Technologies Group (“PMT”) combines our core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT’s strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT’s focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, all-in-ones, specialized cabinet finishes and application specific software packages and certification services. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, refurbishes and distributes high value replacement parts for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include Diagnostic Imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

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

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

	Three Months Ended		Six Months Ended	
	December	December	December	December
	1, 2018	2, 2017	1, 2018	2, 2017
PMT				
Net Sales	\$ 32,328	\$ 30,063	\$ 67,097	\$ 59,187
Gross Profit	10,107	10,262	21,114	19,836
Canvys				
Net Sales	\$ 6,498	\$ 6,707	\$ 13,671	\$ 12,472
Gross Profit	2,132	2,128	4,445	3,674
Healthcare				

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Net Sales	\$2,488	\$ 2,312	\$4,703	\$ 4,418
Gross Profit	732	984	1,365	2,012

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

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

	Three Months Ended		Six Months Ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Net Sales				
North America	\$ 16,825	\$ 15,846	\$ 33,848	\$ 30,909
Asia/Pacific	8,520	7,457	18,062	14,467
Europe	13,393	13,615	28,149	26,115
Latin America	2,559	2,141	5,373	4,560
Other (1)	17	23	39	26
Total	\$ 41,314	\$ 39,082	\$ 85,471	\$ 76,077
Gross Profit				
North America	\$ 6,518	\$ 6,186	\$ 13,105	\$ 11,792
Asia/Pacific	2,701	2,545	5,706	4,925
Europe	4,215	4,484	8,738	8,589
Latin America	955	854	2,021	1,818
Other (1)	(1,418)	(695)	(2,646)	(1,602)
Total	\$ 12,971	\$ 13,374	\$ 26,924	\$ 25,522

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

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.

12. LITIGATION

On December 5, 2017, Steven H. Busch filed a Verified Stockholder Derivative Complaint against Edward J. Richardson, Paul Plante, Jacques Belin, James Benham, Kenneth Halverson and the Company in the Delaware Court of Chancery, captioned Steven H. Busch v. Edward J. Richardson, et al., C.A. No. 2017-0868-AGB. The lawsuit alleges claims for breach of fiduciary duty by the Company's directors and challenges the decision of a special committee of the Company's Board to refuse Mr. Busch's demand that the Company's Board, among other things, rescind the Company's May 2013 repurchase of stock from Mr. Richardson and May 2013 and October 2014 repurchases of Company stock from the Richardson Wildlife Foundation. On September 21, 2018, the court heard oral arguments on the Company's March 9, 2018 motion to dismiss the lawsuit. On November 14, 2018, the Court of Chancery issued a ruling granting defendant's motion to dismiss and dismissed the case with prejudice. The plaintiff's time to appeal the Court of Chancery dismissal expired December 14, 2018. No notice of appeal was filed. The case is concluded.

On October 15, 2018, Varex Imaging Corporation ("Varex") filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics Ltd. ("Richardson") in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson's ALTA750™ product. Richardson moved to dismiss this case and filed an opposition to the preliminary injunction. The Court will take these matters up at hearings on January 23, 28 and 29, 2019. The Company believes

the lawsuit to be without merit and a loss is not probable or estimable based on the information at the time the financial statements were issued.

13. FAIR VALUE MEASUREMENTS

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

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

As of December 1, 2018, we held investments that were required to be measured at fair value on a recurring basis. Our investments consisted of CDs where face value was equal to fair value.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of December 1, 2018 were as follows (in thousands):

	Level
	1
December 1, 2018	
CDs	5,300

14. RELATED PARTY TRANSACTION

On June 15, 2015, the Company entered into a lease agreement for the IMES facility with LDL, LLC. The Executive Vice President of IMES, Lee A. McIntyre III (former owner of IMES), has an ownership interest in LDL, LLC. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.2 million. Rental expense related to this lease amounted to \$0.1 million for the six months ended December 1, 2018 and for the six months ended December 2, 2017. The Company shall be entitled to extend the term of the lease for a period of an additional five years by notifying the landlord in writing of its intention to do so within nine months of the expiration of the initial term.

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

Certain statements in this report may constitute “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms “may,” “should,” “could,” “anticipate,” “believe,” “continues,” “estimate,” “expect,” “intend,” “objective,” “plan,” “potential,” “project” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management’s current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A, of our Annual Report on Form 10-K filed on August 2, 2018. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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

INTRODUCTION

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

• **Business Overview** – a brief synopsis of our Company for the periods ended December 1, 2018 and December 2, 2017.

• **Results of Operations** – an analysis and comparison of our consolidated results of operations for the three and six month periods ended December 1, 2018 and December 2, 2017, as reflected in our consolidated statements of comprehensive (loss) income.

• **Liquidity, Financial Position and Capital Resources** – a discussion of our primary sources and uses of cash for the three and six month periods ended December 1, 2018 and December 2, 2017, and a discussion of changes in our financial position.

Business Overview

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value flat panel detector solutions, replacement parts, tubes and service training for diagnostic imaging equipment; and customized display solutions. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. The Company’s strategy is to provide specialized technical expertise and “engineered solutions” based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair through its global infrastructure.

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

We have three operating and reportable segments which we define as follows:

Power and Microwave Technologies Group (“PMT”) combines our core engineered solutions, power grid and microwave tube business with new RF and power technologies. As a manufacturer and authorized distributor, PMT’s strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT’s focus is on products for power, RF and microwave applications for customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, all-in-ones, specialized cabinet finishes and application specific software packages and certification services. Our volume commitments are lower than the large display manufacturers, making us the ideal choice for companies with very specific design requirements. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, refurbishes and distributes high value replacement parts for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include Diagnostic Imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

We currently have operations in the following major geographic regions: North America, Asia/Pacific, Europe and Latin America.

RESULTS OF OPERATIONS

Financial Summary – Three Months Ended December 1, 2018

• The second quarter of fiscal 2019 and fiscal 2018 each contained 13 weeks.

• Net sales for the second quarter of fiscal 2019 were \$41.3 million, an increase of 5.7%, compared to net sales of \$39.1 million during the second quarter of fiscal 2018.

• Gross margin decreased to 31.4% during the second quarter of fiscal 2019 compared to 34.2% during the second quarter of fiscal 2018.

• Selling, general and administrative expenses were \$13.4 million, or 32.5% of net sales, for the second quarter of fiscal 2019 compared to \$12.6 million, or 32.2% of net sales, for the second quarter of fiscal 2018.

• Operating loss during the second quarter of fiscal 2019 was \$0.5 million compared to an operating income of \$0.8 million in the second quarter of fiscal 2018.

• Net loss during the second quarter of fiscal 2019 was \$0.3 million compared to net income of \$1.7 million during the second quarter of fiscal 2018. Net income during the second quarter of fiscal 2018 included income of \$1.5 million from discontinued operations.

Financial Summary – Six Months Ended December 1, 2018

• The first six months of fiscal 2019 and fiscal 2018 contained 26 and 27 weeks, respectively.

• Net sales for the first six months of fiscal 2019 were \$85.5 million, an increase of 12.3%, compared to net sales of \$76.1 million during the first six months of fiscal 2018.

• Gross margin decreased to 31.5% during the first six months of fiscal 2019 compared to 33.5% during the first six months of fiscal 2018.

• Selling, general and administrative expenses were \$26.5 million, or 31.0% of net sales, for the first six months of fiscal 2019, compared to \$24.9 million, or 32.8% of net sales, for the first six months of fiscal 2018.

• Operating income during the first six months of fiscal 2019 was \$0.4 million compared to an operating income of \$0.8 million in the first six months of fiscal 2018.

• Net income during the first six months of fiscal 2019 was \$0.1 million compared to net income of \$1.6 million during the first six months of fiscal 2018. Net income during the second quarter of fiscal 2018 included income of \$1.5 million from discontinued operations.

Net Sales and Gross Profit Analysis

Net sales by segment and percent change for the second quarter and first six months of fiscal 2019 and fiscal 2018 were as follows (in thousands):

Net Sales	Three Months Ended		FY19 vs. FY18	
	December	December	% Change	
	1, 2018	2, 2017		
PMT	\$32,328	\$ 30,063	7.5	%
Canvys	6,498	6,707	-3.1	%
Healthcare	2,488	2,312	7.6	%
Total	\$41,314	\$ 39,082	5.7	%

	Six Months Ended		FY19 vs. FY18	
	December	December	% Change	
	1, 2018	2, 2017		
PMT	\$67,097	\$ 59,187	13.4	%
Canvys	13,671	12,472	9.6	%
Healthcare	4,703	4,418	6.5	%
Total	\$85,471	\$ 76,077	12.3	%

During the second quarter of fiscal 2019, consolidated net sales increased 5.7% compared to the second quarter of fiscal 2018. Sales for PMT increased 7.5%, sales for Canvys decreased 3.1% and sales for Healthcare increased 7.6%. The increase in PMT was mainly due to major growth in our new technology partners in RF and microwave components and power conversion and market share gains in the RF and microwave tube business. The decrease in Canvys was due to several large non-recurring orders that shipped in the second quarter of fiscal 2018. The increase in Healthcare was due to higher CT tube sales and increasing equipment sales, partially offset by lower part sales.

During the first six months of fiscal 2019, consolidated net sales increased 12.3% compared to the first six months of fiscal 2018. Sales for PMT increased 13.4%, sales for Canvys increased 9.6% and sales for Healthcare increased 6.5%. The increase in PMT was due to specialty products manufactured in LaFox, market share gains in our legacy tube business and a strong increase in new technology partners in power conversion and RF and microwave components. The increase in Canvys was due to increased customer demand in our North American and European markets. The increase in Healthcare was due to higher CT tube sales and increasing equipment sales, partially offset by lower part sales.

Gross profit by segment and percent of net sales for the second quarter and first six months of fiscal 2019 and fiscal 2018 were as follows (in thousands):

Gross Profit	Three Months Ended			
	December		December	
	1, 2018	% of Net Sales	2, 2017	% of Net Sales

PMT	\$ 10,107	31.3	%	\$ 10,262	34.1	%
Canvys	2,132	32.8	%	2,128	31.7	%
Healthcare	732	29.4	%	984	42.6	%
Total	\$ 12,971	31.4	%	\$ 13,374	34.2	%

	Six Months Ended					
	December			December		
	1, 2018	% of Net Sales		2, 2017	% of Net Sales	
PMT	\$ 21,114	31.5	%	\$ 19,836	33.5	%
Canvys	4,445	32.5	%	3,674	29.5	%
Healthcare	1,365	29.0	%	2,012	45.5	%
Total	\$ 26,924	31.5	%	\$ 25,522	33.5	%

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.

Consolidated gross profit decreased to \$13.0 million during the second quarter of fiscal 2019 compared to \$13.4 million during the second quarter of fiscal 2018. Consolidated gross margin as a percentage of net sales decreased to 31.4% during the second quarter of fiscal 2019 from 34.2% during the second quarter of fiscal 2018, primarily due to unfavorable product mix and manufacturing variances for PMT, unfavorable product mix and manufacturing variances for Healthcare, partially offset by favorable product mix and lower costs on selected products for Canvys.

Consolidated gross profit increased to \$26.9 million during the first six months of fiscal 2019 compared to \$25.5 million during the first six months of fiscal 2018. Consolidated gross margin as a percentage of net sales decreased to 31.5% during the first six months of fiscal 2019 from 33.5% during the first six months of fiscal 2018, primarily due to unfavorable product mix and manufacturing variances for PMT, unfavorable product mix and manufacturing variances for Healthcare, partially offset by favorable product mix and lower costs on selected products for Canvys.

Power and Microwave Technologies Group

PMT net sales increased 7.5% to \$32.3 million during the second quarter of fiscal 2019 from \$30.1 million during the second quarter of fiscal 2018. The increase was due to major growth in our new technology partners in power conversion and RF and microwave components as well as market share gains in the RF and microwave tube business. Gross margin as a percentage of net sales decreased to 31.3% during the second quarter of fiscal 2019 as compared to 34.1% during the second quarter of fiscal 2018, due to unfavorable product mix and manufacturing variances.

PMT net sales increased 13.4% to \$67.1 million during the first six months of fiscal 2019 from \$59.2 million during the first six months of fiscal 2018. The increase included sales of specialty products manufactured in LaFox, market share gains in our legacy tube business and sales from new technology partners in power conversion and RF and microwave components. Gross margin as a percentage of net sales decreased to 31.5% during the first six months of fiscal 2019 as compared to 33.5% during the first six months of fiscal 2018, due to unfavorable product mix and manufacturing variances.

Canvys

Canvys net sales decreased 3.1% to \$6.5 million during the second quarter of fiscal 2019 from \$6.7 million during the second quarter of fiscal 2018 due to several large non-recurring orders that shipped in the second quarter of fiscal 2018. Gross margin as a percentage of net sales increased to 32.8% during the second quarter of fiscal 2019 as compared to 31.7% during the second quarter of fiscal 2018, due to favorable product mix and lower costs on selected products sold.

Canvys net sales increased 9.6% to \$13.7 million during the first six months of fiscal 2019 from \$12.5 million during the first six months of fiscal 2018 due to increased customer demand in our North American and European markets. Gross margin as a percentage of net sales increased to 32.5% during the first six months of fiscal 2019 as compared to 29.5% during the first six months of fiscal 2018, due to favorable product mix and lower costs on selected products sold.

Healthcare

Healthcare net sales increased 7.6% to \$2.5 million during the second quarter of fiscal 2019 from \$2.3 million during the second quarter of fiscal 2018 due to higher CT tube sales and increasing equipment sales, partially offset by lower parts sales. Gross margin as a percentage of net sales decreased to 29.4% during the second quarter of fiscal 2019 as compared to 42.6% during the second quarter of fiscal 2018 due to an unfavorable product mix and manufacturing variances.

Healthcare net sales increased 6.5% to \$4.7 million during the first six months of fiscal 2019 from \$4.4 million during the first six months of fiscal 2018 due to higher CT tube sales and increasing equipment sales, partially offset by lower parts sales. Gross margin as a percentage of net sales decreased to 29.0% during the first six months of fiscal 2019 as compared to 45.5% during the first six months of fiscal 2018 due to an unfavorable product mix and manufacturing variances.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$13.4 million during the second quarter of fiscal 2019 from \$12.6 million in the second quarter of fiscal 2018. The increase was due to \$0.3 million of higher legal costs, severance expense of \$0.2 million related to actions taken to improve the manufacturing variances and a \$0.2 million recovery of a bad debt recorded in last year's second quarter. Operating expenses as a percent of net sales increased to 32.5% in the second quarter of fiscal 2019 from 32.2% in the second quarter of fiscal 2018.

Selling, general and administrative expenses increased to \$26.5 million during the first six months of fiscal 2019 from \$24.9 million during the first six months of fiscal 2018. The increase was due to additional compensation and other expenses related to the increase in net sales as well as the higher legal, severance and bad debt expense as discussed above.

Other Income/Expense

Other income/expense was income of \$0.3 million during the second quarter of fiscal 2019, compared to expense of \$0.1 million during the second quarter of fiscal 2018. Other income/expense during the second quarter of fiscal 2019 included \$0.2 million of foreign exchange gains and \$0.1 million of investment/interest income. Other expense during the second quarter of fiscal 2018 included \$0.1 million of foreign exchange losses. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other income/expense was \$0.2 million of income during the first six months of fiscal 2019, compared to expense of \$0.1 million during the first six months of fiscal 2018. Other income during the first six months of fiscal 2019 included \$0.1 million of foreign exchange losses offset by \$0.3 million of investment/interest income. Other expense during the first six months of fiscal 2018 included \$0.3 million of foreign exchange losses partially offset by \$0.2 million of investment/interest income.

Income Tax Provision

We recorded an income tax provision of \$0.4 million and \$0.6 million for the first six months of fiscal 2019 and the first six months of fiscal 2018, respectively. The effective income tax rate during the first six months of fiscal 2019 was a tax provision of 77.9%, as compared to a tax provision of 90.9% during the first six months of fiscal 2018. The difference in rate during the first six months of fiscal 2019, as compared to the first six months of fiscal 2018, reflects the changes in our geographical distribution of income (loss), the recording of provision to return true-ups of various foreign jurisdictions and our positions with respect to ASC 740-30, Income Taxes - Other Considerations or Special Areas. The 77.9% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss) and the movement of the valuation allowance against our U.S. state and federal net deferred tax assets.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2008 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2012.

Net (Loss)Income and Per Share Data

Net loss during the second quarter of fiscal 2019 was \$0.3 million or (\$0.02) per diluted common share and (\$0.02) per Class B diluted common share as compared to net income, including income from discontinued operations of \$1.5 million, of \$1.7 million during the second quarter of fiscal 2018, or \$0.13 per diluted common share and \$0.12 per Class B diluted common share.

Net income during the first six months of fiscal 2019 was \$0.1 million, or \$0.01 per diluted common share and \$0.01 per Class B diluted common share as compared to net income, including income from discontinued operations of \$1.5 million, of \$1.6 million during the first six months of fiscal 2018, or \$0.12 per diluted common share and \$0.11 per Class B diluted common share.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

Our operations and cash needs have been primarily financed through income from operations and cash on hand.

Cash and cash equivalents were \$47.9 million at December 1, 2018. Investments included CDs classified as short-term investments of \$5.3 million. Cash and investments at December 1, 2018 consisted of \$25.3 million in North America, \$18.6 million in Europe, \$1.1 million in Latin America and \$8.2 million in Asia/Pacific. We repatriated \$2.3 million total cash from our entities in Japan and Korea in the first quarter of fiscal 2019.

Cash and cash equivalents were \$60.5 million at June 2, 2018. We had no investments at June 2, 2018. Cash and cash equivalents at June 2, 2018 consisted of \$26.5 million in North America, \$20.2 million in Europe, \$1.0 million in Latin America and \$12.8 million in Asia/Pacific. We repatriated \$21.2 million of foreign cash to our U.S. parent company in fiscal 2018, \$17.7 million from our Hong Kong entity and the remainder from our entities in Singapore, Italy and Taiwan.

We believe that the existing sources of liquidity, including current cash, will provide sufficient resources to meet known capital requirements and working capital needs through the next twelve months.

Cash Flows from Operating Activities

The cash used in operating activities primarily resulted from net income (loss) adjusted for non-cash items and changes in our operating assets and liabilities.

Operating activities used \$2.7 million of cash during the first six months of fiscal 2019. We had net income of \$0.1 million during the first six months of fiscal 2019, which included non-cash stock-based compensation expense of \$0.4 million associated with the issuance of stock option and restricted stock awards, \$0.4 million for inventory reserve provisions and depreciation and amortization expense of \$1.6 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in a use of cash of \$5.3 million during the first six months of fiscal 2019, net of foreign currency exchange gains and losses, included a decrease of \$3.9 million in accounts payable, an increase in inventory of \$1.8 million and an increase of \$0.3 million in prepaid expenses and other assets, partially offset by an increase in accrued liabilities of \$0.6 million. The decrease in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services. The inventory increase was due to growth in supplying replacement systems and parts to the Healthcare market as well as an increase in components for the production of the ALTA 750™ CT Tube.

Operating activities used \$2.3 million of cash during the first six months of fiscal 2018. We had net income of \$1.6 million during the first six months of fiscal 2018, which included non-cash stock-based compensation expense of \$0.3 million associated with the issuance of stock option and restricted stock awards and depreciation and amortization expense of \$1.5 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities during the first six months of fiscal 2018, net of foreign currency exchange gains and losses, included an increase in inventories of \$4.6 million, a decrease of \$1.0 million in accounts payable and an increase in prepaid expenses and other assets of \$0.6 million. The inventory increase was due to the ongoing growth of our RF and power technologies business, increase in raw material and work in process supporting the semiconductor capital equipment market and growth in supplying replacement systems and parts to the Healthcare market. The decrease in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services.

Cash Flows from Investing Activities

The cash flow used in investing activities consisted primarily of purchases of investments and capital expenditures.

Cash used in investing activities of \$7.5 million during the first six months of fiscal 2019 included \$5.3 million from purchases of investments and \$2.2 million in capital expenditures. Capital expenditures relates primarily to our Healthcare growth initiatives, a new air conditioner unit for the building, investments in our LaFox manufacturing operation and capital used for our IT system.

Cash provided by investing activities of \$1.8 million during the first six months of fiscal 2018 included proceeds from the maturities of investments of \$8.2 million, partially offset by \$3.9 million from purchases of investments and \$2.7 million in capital expenditures. Capital expenditures relates primarily to our Healthcare growth initiatives, a new roof for part of our warehouse and capital used for our new IT system.

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

Cash Flows from Financing Activities

The cash flow from financing activities consisted primarily of cash dividends paid.

Cash used in financing activities of \$1.3 million during the first six months of fiscal 2019 resulted from \$1.5 million of cash used to pay dividends partially offset by \$0.2 million of proceeds from the issuance of common stock from stock option exercises.

Cash used in financing activities of \$1.5 million during the first six months of fiscal 2018 resulted from cash used to pay dividends.

All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions and such other factors that the Board may deem relevant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management and Market Sensitive Financial Instruments

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

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended June 2, 2018, filed August 2, 2018.

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 December 1, 2018.

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 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 5, 2017, Steven H. Busch filed a Verified Stockholder Derivative Complaint against Edward J. Richardson, Paul Plante, Jacques Belin, James Benham, Kenneth Halverson and the Company in the Delaware Court of Chancery, captioned Steven H. Busch v. Edward J. Richardson, et al., C.A. No. 2017-0868-AGB. The lawsuit alleges claims for breach of fiduciary duty by the Company's directors and challenges the decision of a special committee of the Company's Board to refuse Mr. Busch's demand that the Company's Board, among other things, rescind the Company's May 2013 repurchase of stock from Mr. Richardson and May 2013 and October 2014 repurchases of Company stock from the Richardson Wildlife Foundation. On September 21, 2018, the court heard oral arguments on the Company's March 9, 2018 motion to dismiss the lawsuit. On November 14, 2018, the Court of Chancery issued a ruling granting defendant's motion to dismiss and dismissed the case with prejudice. The plaintiff's time to appeal the Court of Chancery dismissal expired December 14, 2018. No notice of appeal was filed. The case is concluded.

On October 15, 2018, Varex Imaging Corporation ("Varex") filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics Ltd. ("Richardson") in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson's ALTA750TM product. Richardson moved to dismiss this case and filed an opposition to the preliminary injunction. The Court will take these matters up at hearings on January 23, 28 and 29, 2019. The Company believes the lawsuit to be without merit and a loss is not probable or estimable based on the information at the time the financial statements were issued.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 2, 2018, filed August 2, 2018.

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

ITEM 5. OTHER INFORMATION

Results of Operation and Financial Condition and Declaration of Dividend

On January 9, 2019, we issued a press release reporting results for our second quarter ended December 1, 2018, 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

Exhibit Index

Exhibit

Number Description

- 3.1 Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Annex III of the Proxy Statement dated August 22, 2014.
- 3.2 Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2017).
- 10.1 Amendment, dated December 14, 2018, to the Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015.
- 31.1 Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Press release, dated January 9, 2019.
- 101 The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2019, filed with the SEC on January 10, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Comprehensive (Loss) Income, (iii) the Unaudited Consolidated Statements of Cash Flows, (iv) the Unaudited Consolidated Statement of Stockholders' Equity and (v) Notes to Unaudited Consolidated Financial Statements.

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 10, 2019 By: /s/ Robert J. Ben
Robert J. Ben

Chief Financial Officer and Chief Accounting Officer

(on behalf of the Registrant and

as Principal Financial Officer)