

RICHARDSON ELECTRONICS LTD/DE  
Form 10-Q  
January 10, 2013  
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**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, 2012

**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.**

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(Exact name of registrant as specified in its charter)

|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)   | <b>36-2096643</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>40W267 Keslinger Road, P.O. Box 393</b><br>(Address of principal executive offices) | <b>LaFox, Illinois 60147-0393</b>                            |

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

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

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

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

|  |   |
|--|---|
| Large Accelerated Filer <input type="checkbox"/>   | Accelerated Filer <input checked="" type="checkbox"/> |
| Non-Accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller Reporting Company <input type="checkbox"/>    |

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 7, 2013, there were outstanding 12,293,532 shares of Common Stock, \$0.05 par value and 2,739,569 shares of Class B Common Stock, \$0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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

|  | <b>Unaudited<br/>December 1,<br/>2012</b> | <b>Audited<br/>June 2,<br/>2012</b> |
|--|---|-------------------------------------|
| <b>Assets</b>  |   |                                     |
| <b>Current assets:</b>                                     |   |                                     |
| Cash and cash equivalents                                  | \$ 53,518                                 | \$ 43,893                           |
| Accounts receivable, less allowance of \$1,047 and \$1,058 | 21,706                                    | 19,727                              |
| Inventories  | 35,252                                    | 34,675                              |
| Prepaid expenses and other assets                          | 1,287                                     | 806                                 |
| Deferred income taxes                                      | 2,029                                     | 2,095                               |
| Income tax receivable                                      | 6,381                                     | 6,572                               |
| Investments - current                                      | 86,395                                    | 105,009                             |
| Discontinued operations - assets                           | 248                                       | 514                                 |
| <b>Total current assets</b>                                | <b>206,816</b>                            | <b>213,291</b>                      |
| <b>Non-current assets:</b>                                 |   |                                     |
| Property, plant and equipment, net                         | 4,438                                     | 4,375                               |
| Goodwill   | 2,269                                     | 1,261                               |
| Other intangibles  | 272                                       | 355                                 |
| Non-current deferred income taxes                          | 1,474                                     | 1,458                               |
| Investments - non-current                                  | 7,380                                     | 10,683                              |
| <b>Total non-current assets</b>                            | <b>15,833</b>                             | <b>18,132</b>                       |
| <b>Total assets</b>  | <b>\$ 222,649</b>                         | <b>\$ 231,423</b>                   |
| <b>Liabilities and Stockholders Equity</b>                 |   |                                     |
| <b>Current liabilities:</b>                                |   |                                     |
| Accounts payable   | \$ 13,960                                 | \$ 12,611                           |
| Accrued liabilities  | 8,302                                     | 8,466                               |
| Discontinued operations - liabilities                      | 418                                       | 253                                 |
| <b>Total current liabilities</b>                           | <b>22,680</b>                             | <b>21,330</b>                       |
| <b>Non-current liabilities:</b>                            |   |                                     |
| Long-term income tax liabilities                           | 6,947                                     | 7,306                               |
| Other non-current liabilities                              | 1,385                                     | 1,213                               |
| Discontinued operations - non-current liabilities          | 1,380                                     | 1,361                               |
| <b>Total non-current liabilities</b>                       | <b>9,712</b>                              | <b>9,880</b>                        |
| <b>Total liabilities</b>                                   | <b>32,392</b>                             | <b>31,210</b>                       |

**Commitments and contingencies**

| <b>Stockholders equity</b>  |                   |                   |
|---|-------------------|-------------------|
| Common stock, \$0.05 par value; issued 12,284 shares at December 1, 2012, and 13,074 shares at June 2, 2012                   | 611               | 654               |
| Class B common stock, convertible, \$0.05 par value; issued 2,740 shares at December 1, 2012 and 2,920 shares at June 2, 2012 | 141               | 146               |
| Preferred stock, \$1.00 par value, no shares issued   |                   |                   |
| Additional paid-in-capital  | 76,914            | 88,217            |
| Common stock in treasury, at cost, -0- shares at December 1, 2012, and 18 shares at June 2, 2012                              |                   | (216)             |
| Retained earnings   | 103,366           | 104,139           |
| Accumulated other comprehensive income  | 9,225             | 7,273             |
| <b>Total stockholders equity</b>  | <b>190,257</b>    | <b>200,213</b>    |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 222,649</b> | <b>\$ 231,423</b> |

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

|   | Three Months Ended  |                     | Six Months Ended    |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | December 1,<br>2012 | December 3,<br>2011 | December 1,<br>2012 | December 3,<br>2011 |
| Net sales   | \$ 36,603           | \$ 39,138           | \$ 72,253           | \$ 80,649           |
| Cost of sales   | 25,861              | 27,448              | 50,865              | 56,257              |
| <b>Gross profit</b>                                     | <b>10,742</b>       | <b>11,690</b>       | <b>21,388</b>       | <b>24,392</b>       |
| Selling, general, and administrative expenses           | 10,228              | 9,973               | 20,377              | 20,745              |
| (Gain) loss on disposal of assets                       | 2                   |                     | (2)                 | (70)                |
| <b>Operating income</b>                                 | <b>512</b>          | <b>1,717</b>        | <b>1,013</b>        | <b>3,717</b>        |
| Other (income) expense:                                 |                     |                     |                     |                     |
| Investment/interest income                              | (352)               | (281)               | (735)               | (645)               |
| Foreign exchange (gain) loss                            | 297                 | (486)               | 260                 | 295                 |
| Other, net  | (42)                | 19                  | (65)                | (2)                 |
| Total other income                                      | (97)                | (748)               | (540)               | (352)               |
| Income from continuing operations before income taxes   | 609                 | 2,465               | 1,553               | 4,069               |
| Income tax provision                                    | 28                  | 836                 | 238                 | 1,411               |
| Income from continuing operations                       | 581                 | 1,629               | 1,315               | 2,658               |
| Income (loss) from discontinued operations, net of tax  | (203)               | (799)               | (290)               | 1,803               |
| <b>Net income</b>                                       | <b>378</b>          | <b>830</b>          | <b>\$ 1,025</b>     | <b>\$ 4,461</b>     |
| Foreign currency translation gain (loss), net of tax    | 1,547               | (2,573)             | 1,947               | (1,205)             |
| Fair value adjustments on investments                   | 4                   | (3)                 | 5                   | (51)                |
| <b>Comprehensive income (loss)</b>                      | <b>\$ 1,929</b>     | <b>\$ (1,746)</b>   | <b>\$ 2,977</b>     | <b>\$ 3,205</b>     |
| <u>Net income per Common share Basic:</u>               |                     |                     |                     |                     |
| Income from continuing operations                       | \$ 0.04             | \$ 0.10             | \$ 0.09             | \$ 0.16             |
| Income (loss) from discontinued operations              | (0.01)              | (0.05)              | (0.02)              | 0.11                |
| <b>Total net income per Common share Basic:</b>         | <b>\$ 0.03</b>      | <b>\$ 0.05</b>      | <b>\$ 0.07</b>      | <b>\$ 0.27</b>      |
| <u>Net income per Class B common share Basic:</u>       |                     |                     |                     |                     |
| Income from continuing operations                       | \$ 0.03             | \$ 0.09             | \$ 0.08             | \$ 0.14             |
| Income (loss) from discontinued operations              | (0.01)              | (0.04)              | (0.02)              | 0.10                |
| <b>Total net income per Class B common share Basic:</b> | <b>\$ 0.02</b>      | <b>\$ 0.05</b>      | <b>\$ 0.06</b>      | <b>\$ 0.24</b>      |
| <u>Net income per Common share Diluted:</u>             |                     |                     |                     |                     |
| Income from continuing operations                       | \$ 0.04             | \$ 0.09             | \$ 0.08             | \$ 0.15             |

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|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Income (loss) from discontinued operations                | (0.01)          | (0.05)          | (0.02)          | 0.10            |
| <b>Total net income per Common share Diluted:</b>         | <b>\$ 0.03</b>  | <b>\$ 0.04</b>  | <b>\$ 0.06</b>  | <b>\$ 0.25</b>  |
| <b>Net income per Class B common share Diluted:</b>       |                 |                 |                 |                 |
| Income from continuing operations                         | \$ 0.03         | \$ 0.09         | \$ 0.08         | \$ 0.14         |
| Income (loss) from discontinued operations                | (0.01)          | (0.04)          | (0.02)          | 0.10            |
| <b>Total net income per Class B common share Diluted:</b> | <b>\$ 0.02</b>  | <b>\$ 0.05</b>  | <b>\$ 0.06</b>  | <b>\$ 0.24</b>  |
| <b>Weighted average number of shares:</b>                 |                 |                 |                 |                 |
| Common shares Basic                                       | 12,437          | 14,069          | 12,604          | 14,206          |
| Class B common shares Basic                               | 2,812           | 2,940           | 2,863           | 2,946           |
| Common shares Diluted                                     | 15,345          | 17,161          | 15,567          | 17,319          |
| Class B common shares Diluted                             | 2,812           | 2,940           | 2,863           | 2,946           |
| <b>Dividends per common share</b>                         | <b>\$ 0.060</b> | <b>\$ 0.050</b> | <b>\$ 0.120</b> | <b>\$ 0.100</b> |
| <b>Dividends per Class B common share</b>                 | <b>\$ 0.054</b> | <b>\$ 0.045</b> | <b>\$ 0.108</b> | <b>\$ 0.090</b> |

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

|   | <b>Three Months Ended</b>   |                             | <b>Six Months Ended</b>     |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>December 1,<br/>2012</b> | <b>December 3,<br/>2011</b> | <b>December 1,<br/>2012</b> | <b>December 3,<br/>2011</b> |
| <b>Operating activities:</b>  |                             |                             |                             |                             |
| <b>Net income</b>   | \$ 378                      | \$ 830                      | \$ 1,025                    | \$ 4,461                    |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                             |                             |                             |                             |
| Depreciation and amortization   | 266                         | 280                         | 565                         | 564                         |
| (Gain) loss on sale of investments  | (1)                         | 11                          | (21)                        | 1                           |
| (Gain) loss on disposal of assets   | 2                           |                             | (2)                         |                             |
| Stock compensation expense  | 208                         | 107                         | 332                         | 262                         |
| Change in assets and liabilities, net of effects of acquired businesses:                |                             |                             |                             |                             |
| Deferred income taxes   | (7)                         | (3,514)                     | (8)                         | 1,815                       |
| Accounts receivable   | (758)                       | 161                         | (1,404)                     | (64)                        |
| Income tax receivable   | 36                          | 2,686                       | 191                         | (5,584)                     |
| Inventories   | 2,265                       | (1,978)                     | 1,715                       | (5,592)                     |
| Prepaid expenses and other assets   | 196                         | 5,631                       | (426)                       | 8,426                       |
| Accounts payable  | 2,664                       | (503)                       | 1,234                       | (3,084)                     |
| Accrued liabilities   | 806                         | (9,230)                     | (200)                       | (42,866)                    |
| Long-term income tax liabilities  | 4                           | 4,396                       | (317)                       | (7,015)                     |
| Other   | 148                         | 1,744                       | 190                         | 1,678                       |
| <b>Net cash provided by (used in) operating activities</b>                              | <b>6,207</b>                | <b>621</b>                  | <b>2,874</b>                | <b>(46,998)</b>             |
| <b>Investing activities:</b>  |                             |                             |                             |                             |
| Cash consideration paid for acquired businesses   | (2,557)                     | (2,297)                     | (2,557)                     | (2,297)                     |
| Capital expenditures  | (478)                       |                             | (557)                       | (74)                        |
| Proceeds from sale of assets  |                             |                             | 4                           | 16                          |
| Proceeds from maturity of investments   | 39,763                      | 64,849                      | 97,510                      | 202,382                     |
| Purchases of investments  | (23,838)                    | (68,878)                    | (75,562)                    | (285,162)                   |
| Proceeds from sales of available-for-sale securities                                    | 83                          | 58                          | 137                         | 121                         |
| Purchases of available-for-sale securities  | (83)                        | (58)                        | (137)                       | (121)                       |
| Other   |                             | 3                           |                             | 51                          |
| <b>Net cash provided by (used in) investing activities</b>                              | <b>12,890</b>               | <b>(6,323)</b>              | <b>18,838</b>               | <b>(85,084)</b>             |
| <b>Financing activities:</b>  |                             |                             |                             |                             |
| Repurchase of common stock  | (5,998)                     | (4,197)                     | (11,550)                    | (11,888)                    |
| Proceeds from issuance of common stock  | 72                          | 275                         | 83                          | 362                         |
| Cash dividends paid   | (1,799)                     | (832)                       | (1,799)                     | (1,678)                     |
| Other   |                             | (4)                         |                             | 3                           |
| <b>Net cash used in financing activities</b>  | <b>(7,725)</b>              | <b>(4,758)</b>              | <b>(13,266)</b>             | <b>(13,201)</b>             |
| Effect of exchange rate changes on cash and cash equivalents                            | 908                         | (1,594)                     | 1,179                       | (510)                       |
| <b>Increase/ (decrease) in cash and cash equivalents</b>                                | <b>12,280</b>               | <b>(12,054)</b>             | <b>9,625</b>                | <b>(145,793)</b>            |
| Cash and cash equivalents at beginning of period  | 41,238                      | 37,236                      | 43,893                      | 170,975                     |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| <b>Cash and cash equivalents at end of period</b> | \$ 53,518 | \$ 25,182 | \$ 53,518 | \$ 25,182 |
|---|-----------|-----------|-----------|-----------|

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

|                                       | Class B | Par   | Additional | Common    | Retained | Accumulated   | Total    |            |
|---------------------------------------|---------|-------|------------|-----------|----------|---------------|----------|------------|
|                                       | Common  | Value | Paid In    | Stock in  | Earnings | Other         |          |            |
|                                       |         |       | Capital    | Treasury  |          | Comprehensive |          |            |
|                                       |         |       |            |           |          | Income        |          |            |
|                                       |         |       |            |           |          | (loss)        |          |            |
|                                       |         |       |            |           |          |               |          |            |
| <b>Balance June 2, 2012:</b>          | 13,074  | 2,920 | \$ 800     | \$ 88,217 | \$ (216) | \$ 104,139    | \$ 7,273 | \$ 200,213 |
| Net income                            |         |       |            |           |          | 1,025         |          | 1,025      |
| Foreign currency translation          |         |       |            |           |          |               | 1,947    | 1,947      |
| Fair value adjustments on investments |         |       |            |           |          |               | 5        | 5          |
| Share-based compensation:             |         |       |            |           |          |               |          |            |
| Stock options                         |         |       |            |           | 332      |               |          | 332        |
| Common stock:                         |         |       |            |           |          |               |          |            |
| Options exercised                     | 13      |       | 1          | 81        |          |               |          | 82         |
| Cancelled shares                      |         | (105) |            |           |          |               |          |            |
| Repurchase of common stock            |         |       |            |           | (11,549) |               |          | (11,549)   |
| Treasury stock                        | (908)   | (75)  | (49)       | (11,717)  | 11,766   |               |          |            |
| Other                                 | 105     |       |            | 1         | (1)      | 1             |          | 1          |
| Dividends paid                        |         |       |            |           |          |               |          |            |
| Common (\$0.12 per share)             |         |       |            |           |          | (1,495)       |          | (1,495)    |
| Class B (\$0.108 per share)           |         |       |            |           |          | (304)         |          | (304)      |
| <b>Balance December 1, 2012:</b>      | 12,284  | 2,740 | \$ 752     | \$ 76,914 | \$       | \$ 103,366    | \$ 9,225 | \$ 190,257 |

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**RICHARDSON ELECTRONICS, LTD.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF THE COMPANY**

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

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

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

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

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

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

*Electron Device Group* ( EDG ) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO<sub>2</sub> laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

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

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

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### 2. BASIS OF PRESENTATION

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

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The first six months of fiscal 2013 and 2012 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. The results of our operations for the three and six months ended December 1, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 1, 2013.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended June 2, 2012, that we filed on July 27, 2012.

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

**Inventories:** Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Our inventories included approximately \$32.7 million of finished goods and \$2.6 million of raw materials and work-in-progress as of December 1, 2012, as compared to approximately \$31.8 million of finished goods and \$2.9 million of raw materials and work-in-progress as of June 2, 2012.

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

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

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

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

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

**Goodwill and Other Intangible Assets:** Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicate 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. As of December 1, 2012, our goodwill balance was \$2.3 million and represents the premium we paid for Powerlink of \$1.4 million during the second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of \$0.9 million during our second quarter of fiscal 2013.



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

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

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

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

**4. DISCONTINUED OPERATIONS****Arrow Transaction**

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

**Financial Summary Discontinued Operations**

Summary financial results for the three and six months ended December 1, 2012, and December 3, 2011, are presented in the following table (in thousands):

|  | Three Months |             | Six Months  |             |
|--|--------------|-------------|-------------|-------------|
|  | Dec 1, 2012  | Dec 3, 2011 | Dec 1, 2012 | Dec 3, 2011 |
| Net sales  | \$ 278       | \$ 816      | \$ 499      | \$ 1,691    |
| Gross profit (loss)                                    | (128)        | (105)       | (221)       | (374)       |
| Selling, general, and administrative expenses          | 201          | 29          | 266         | (448)       |
| Other (income) expense                                 | 1            |             | 1           |             |
| Additional gain on sale                                |              |             |             | (266)       |
| Income tax provision (benefit)                         | (127)        | 665         | (198)       | (1,463)     |
| Income (loss) from discontinued operations, net of tax | \$ (203)     | \$ (799)    | \$ (290)    | \$ 1,803    |

Net sales and gross profit (loss) for the three and six months ended December 1, 2012, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction. Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products for Arrow. During the first quarter ended September 3, 2011, in connection with an examination by the Internal Revenue Service, we reduced our deferred tax liability by \$2.1 million related to our un-repatriated foreign earnings based on a determination of the earnings and profits that would remain in certain foreign subsidiaries after the Arrow transaction.

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Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of December 1, 2012, and June 2, 2012, include the following (*in thousands*):

|   | <b>Dec 1, 2012</b> | <b>Jun 2, 2012</b> |
|---|--------------------|--------------------|
| Inventories                                     | \$ 248             | \$ 503             |
| Prepaid expenses and other assets               |                    | 11                 |
| <b>Discontinued operations Assets</b>           | <b>\$ 248</b>      | <b>\$ 514</b>      |
| Accrued liabilities current <sup>(1)</sup>      | \$ 418             | \$ 253             |
| Long-term income tax liabilities <sup>(2)</sup> | 1,380              | 1,361              |
| <b>Discontinued operations Liabilities</b>      | <b>\$ 1,798</b>    | <b>\$ 1,614</b>    |

(1) Included in accrued liabilities as of December 1, 2012, is a payable to Arrow for transition services of \$ 1.8 million, offset by a receivable due to us from Arrow for transition services of \$1.4 million.

(2) Included in long-term income tax liabilities as of December 1, 2012, is the reserve for uncertain tax positions.

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. Cash flows related to our discontinued operations are not material.

**5. ACQUISITIONS**

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

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

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

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

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

Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicates an impairment may be occurred, such as a significant adverse change in the business climate, loss of key personnel, or a decision to sell or dispose of a reporting unit. As of December 1, 2012, our goodwill balance was \$2.3 million and represents the premium we paid for Powerlink of \$1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of \$0.9 million during our second quarter of fiscal 2013.

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

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

|                                      | <b>Powerlink</b> | <b>D and C</b> | <b>TOTAL</b>    |
|--------------------------------------|------------------|----------------|-----------------|
| <b>Balance at June 2, 2012</b>       | <b>\$ 1,261</b>  | <b>\$</b>      | <b>\$ 1,261</b> |
| Premium Paid for D and C Acquisition |                  | 911            | 911             |
| Foreign currency translation         | 97               |                | 97              |
| <b>Balance at December 1, 2012</b>   | <b>\$ 1,358</b>  | <b>\$ 911</b>  | <b>\$ 2,269</b> |

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

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

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

|                                       | <b>Intangible Assets Subject to Amortization as of</b> |                     |
|---------------------------------------|--|---------------------|
|                                       | <b>Dec 1, 2012</b>                                     | <b>June 2, 2012</b> |
| <b>Gross Amounts:</b>                 |  |                     |
| Customer Relationship                 | \$ 335   | \$ 363              |
| Foreign currency translation          | (4)  |                     |
| <b>Total Gross Amounts</b>            | <b>\$ 331</b>  | <b>\$ 363</b>       |
| <b>Accumulated Amortization:</b>      |  |                     |
| Customer Relationship                 | \$ 59  | \$ 8                |
| <b>Total Accumulated Amortization</b> | <b>\$ 59</b>   | <b>\$ 8</b>         |

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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):

| <b>Fiscal Year</b>    | <b>Amortization<br/>Expense</b> |
|-----------------------|---------------------------------|
| Remaining fiscal 2013 | \$ 21                           |
| 2014                  | \$ 36                           |
| 2015                  | \$ 31                           |
| 2016                  | \$ 27                           |
| 2017                  | \$ 17                           |
| Thereafter            | \$ 140                          |

The weighted average number of years of amortization expense remaining is 13.97.

**7. INVESTMENTS**

As of December 1, 2012, we had approximately \$93.4 million invested in time deposits and certificate of deposits ( CD ). Of this, \$86.4 million mature in less than twelve months and \$7.0 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

We also have investments in equity securities, all of which are classified as available-for-sale and are carried at their fair value based on quoted market prices. Our investments, which are included in non-current assets, had a carrying amount of \$0.4 million as of December 1, 2012, and as of June 2, 2012. Proceeds from the sale of securities were \$0.1 million during the second quarter and first six months of fiscal 2013 and during the first six months of fiscal 2012, and less than \$0.1 million during the second quarter of fiscal 2012. We reinvested proceeds from the sale of securities, and the cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than \$0.1 million during the second quarter and first six months of fiscal 2013 and fiscal 2012. Net unrealized holding losses of less than \$0.1 million during the second quarter and first six months of fiscal 2013 and fiscal 2012, have been included in accumulated other comprehensive income.

**8. WARRANTIES**

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

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves were approximately \$0.2 million as of December 1, 2012, and \$0.1 million as of June 2, 2012.

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

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense from continuing operations during the first six months of fiscal 2013 was \$0.7 million. Under the terms of the Transaction, Arrow assumed many of our facility leases and we are sub-leasing space from Arrow. Our future minimum lease commitments, including common area maintenance charges and property taxes during the remainder of fiscal 2013 and the next four years have been adjusted to reflect the Transaction as follows (*in thousands*):

| <b>Fiscal Year</b>    | <b>Payments</b> |
|-----------------------|-----------------|
| Remaining Fiscal 2013 | \$ 575          |
| 2014                  | \$ 717          |

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|              |                 |
|--------------|-----------------|
| 2015         | \$ 661          |
| 2016         | \$ 396          |
| 2017         | \$ 22           |
| Thereafter   | \$              |
| <b>Total</b> | <b>\$ 2,371</b> |

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### **10. INCOME TAXES**

The effective income tax rate from continuing operations during the first six months of fiscal 2013 was 15.3% as compared to 34.7% during the first six months of fiscal 2012. The decrease in rate during the first six months of fiscal 2013, as compared to fiscal 2012, was due to the decrease in available cash in foreign jurisdictions to distribute unremitted foreign earnings with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*. The effective rate as compared to the federal statutory rate of 34.0% resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, in addition to our position with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state or local, or non-U.S. tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal year 2011. Based on the recent commencement of the audit, no tax matters have arisen that would result in material adjustments. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany and the Netherlands beginning in fiscal 2007.

As of December 1, 2012, \$46.7 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of December 1, 2012, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of June 2, 2012. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is reasonably possible that there will be a change in the unrecognized tax benefits related to continuing operations, excluding interest and penalties, in the range of \$0 to approximately \$0.03 million due to the expiration of various statutes of limitations within the next 12 months.

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

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

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

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

|  | Three Months Ended |            |                  |            |
|--|--------------------|------------|------------------|------------|
|  | December 1, 2012   |            | December 3, 2011 |            |
|  | Basic              | Diluted    | Basic            | Diluted    |
| <i>Numerator for Basic and Diluted EPS:</i>  |                    |            |                  |            |
| <b>Income from continuing operations</b>   | \$ 581             | \$ 581     | \$ 1,629         | \$ 1,629   |
| Less dividends:  |                    |            |                  |            |
| Common stock   | 737                | 737        | 699              | 699        |
| Class B common stock   | 148                | 148        | 133              | 133        |
| Undistributed earnings (losses)  | \$ (304)           | \$ (304)   | \$ 797           | \$ 797     |
| Common stock undistributed earnings (losses)   | \$ (253)           | \$ (253)   | \$ 671           | \$ 672     |
| Class B common stock undistributed earnings (losses)   | (51)               | (51)       | 126              | 125        |
| Total undistributed earnings (losses)  | \$ (304)           | \$ (304)   | \$ 797           | \$ 797     |
| <b>Income (loss) from discontinued operations</b>  | \$ (203)           | \$ (203)   | \$ (799)         | \$ (799)   |
| Less dividends:  |                    |            |                  |            |
| Common stock   | 737                | 737        | 699              | 699        |
| Class B common stock   | 148                | 148        | 133              | 133        |
| Undistributed earnings (losses)  | \$ (1,088)         | \$ (1,088) | \$ (1,631)       | \$ (1,631) |
| Common stock undistributed earnings (losses)   | \$ (904)           | \$ (905)   | \$ (1,373)       | \$ (1,375) |
| Class B common stock undistributed earnings (losses)   | (184)              | (183)      | (258)            | (256)      |
| Total undistributed earnings (losses)  | \$ (1,088)         | \$ (1,088) | \$ (1,631)       | \$ (1,631) |
| <b>Net income</b>  | \$ 378             | \$ 378     | \$ 830           | \$ 830     |
| Less dividends:  |                    |            |                  |            |
| Common stock   | 737                | 737        | 699              | 699        |
| Class B common stock   | 148                | 148        | 133              | 133        |
| Undistributed earnings (losses)  | \$ (507)           | \$ (507)   | \$ (2)           | \$ (2)     |
| Common stock undistributed earnings (losses)   | \$ (421)           | \$ (422)   | \$ (2)           | \$ (2)     |
| Class B common stock undistributed earnings (losses)   | (86)               | (85)       |                  |            |
| Total undistributed earnings (losses)  | \$ (507)           | \$ (507)   | \$ (2)           | \$ (2)     |
| <i>Denominator for basic and diluted EPS:</i>  |                    |            |                  |            |
| Common stock weighted average shares   | 12,437             | 12,437     | 14,069           | 14,069     |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,812              | 2,812      | 2,940            | 2,940      |
| Effect of dilutive securities Dilutive stock options   |                    | 96         |                  | 152        |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions |           | 15,345    |           | 17,161    |
| <b>Income from continuing operations per share:</b>                                      |           |           |           |           |
| Common stock   | \$ 0.04   | \$ 0.04   | \$ 0.10   | \$ 0.09   |
| Class B common stock   | \$ 0.03   | \$ 0.03   | \$ 0.09   | \$ 0.09   |
| <b>Income (loss) from discontinued operations per share:</b>                             |           |           |           |           |
| Common stock   | \$ (0.01) | \$ (0.01) | \$ (0.05) | \$ (0.05) |
| Class B common stock   | \$ (0.01) | \$ (0.01) | \$ (0.04) | \$ (0.04) |
| <b>Net income per share:</b>   |           |           |           |           |
| Common stock   | \$ 0.03   | \$ 0.03   | \$ 0.05   | \$ 0.04   |
| Class B common stock   | \$ 0.02   | \$ 0.02   | \$ 0.05   | \$ 0.05   |

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2013 and fiscal 2012 were 477,064 and 183,500, respectively.*

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|  | Six Months Ended |            |                  |          |
|--|------------------|------------|------------------|----------|
|  | December 1, 2012 |            | December 3, 2011 |          |
|  | Basic            | Diluted    | Basic            | Diluted  |
| <i>Numerator for Basic and Diluted EPS:</i>  |                  |            |                  |          |
| <b>Income from continuing operations</b>   | \$ 1,315         | \$ 1,315   | \$ 2,658         | \$ 2,658 |
| Less dividends:  |                  |            |                  |          |
| Common stock   | 1,495            | 1,495      | 1,413            | 1,413    |
| Class B common stock   | 304              | 304        | 265              | 265      |
| Undistributed earnings (losses)  | \$ (484)         | \$ (484)   | \$ 980           | \$ 980   |
| Common stock undistributed earnings (losses)   | \$ (402)         | \$ (402)   | \$ 826           | \$ 827   |
| Class B common stock undistributed earnings (losses)   | (82)             | (82)       | 154              | 153      |
| Total undistributed earnings (losses)  | \$ (484)         | \$ (484)   | \$ 980           | \$ 980   |
| <b>Income (loss) from discontinued operations</b>  | \$ (290)         | \$ (290)   | \$ 1,803         | \$ 1,803 |
| Less dividends:  |                  |            |                  |          |
| Common stock   | 1,495            | 1,495      | 1,413            | 1,413    |
| Class B common stock   | 304              | 304        | 265              | 265      |
| Undistributed earnings (losses)  | \$ (2,089)       | \$ (2,089) | \$ 125           | \$ 125   |
| Common stock undistributed earnings (losses)   | \$ (1,734)       | \$ (1,737) | \$ 105           | \$ 106   |
| Class B common stock undistributed earnings (losses)   | (355)            | (352)      | 20               | 19       |
| Total undistributed earnings (losses)  | \$ (2,089)       | \$ (2,089) | \$ 125           | \$ 125   |
| <b>Net income</b>  | \$ 1,025         | \$ 1,025   | \$ 4,461         | \$ 4,461 |
| Less dividends:  |                  |            |                  |          |
| Common stock   | 1,495            | 1,495      | 1,413            | 1,413    |
| Class B common stock   | 304              | 304        | 265              | 265      |
| Undistributed earnings (losses)  | \$ (774)         | \$ (774)   | \$ 2,783         | \$ 2,783 |
| Common stock undistributed earnings (losses)   | \$ (643)         | \$ (643)   | \$ 2,345         | \$ 2,350 |
| Class B common stock undistributed earnings (losses)   | (131)            | (131)      | 438              | 433      |
| Total undistributed earnings (losses)  | \$ (774)         | \$ (774)   | \$ 2,783         | \$ 2,783 |
| <i>Denominator for basic and diluted EPS:</i>  |                  |            |                  |          |
| Common stock weighted average shares   | 12,604           | 12,604     | 14,206           | 14,206   |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,863            | 2,863      | 2,946            | 2,946    |
| Effect of dilutive securities Dilutive stock options   |                  | 100        |                  | 167      |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions           |                  | 15,567     |                  | 17,319   |
| <b>Income from continuing operations per share:</b>  |                  |            |                  |          |
| Common stock   | \$ 0.09          | \$ 0.08    | \$ 0.16          | \$ 0.15  |

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|  |           |           |         |         |
|--|-----------|-----------|---------|---------|
| Class B common stock   | \$ 0.08   | \$ 0.08   | \$ 0.14 | \$ 0.14 |
| <b>Income (loss) from discontinued operations per share:</b> |           |           |         |         |
| Common stock   | \$ (0.02) | \$ (0.02) | \$ 0.11 | \$ 0.10 |
| Class B common stock   | \$ (0.02) | \$ (0.02) | \$ 0.10 | \$ 0.10 |
| <b>Net income per share:</b>                                 |           |           |         |         |
| Common stock   | \$ 0.07   | \$ 0.06   | \$ 0.27 | \$ 0.25 |
| Class B common stock   | \$ 0.06   | \$ 0.06   | \$ 0.24 | \$ 0.24 |

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2013 and fiscal 2012 were 267,564 and 25,000, respectively.*

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

EDG provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO<sub>2</sub> laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

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

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

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

|               | Three Months Ended  |                     | Six Months Ended    |                     |
|---------------|---------------------|---------------------|---------------------|---------------------|
|               | December 1,<br>2012 | December 3,<br>2011 | December 1,<br>2012 | December 3,<br>2011 |
| <b>EDG</b>    |                     |                     |                     |                     |
| Net Sales     | \$ 26,186           | \$ 28,022           | \$ 51,813           | \$ 58,751           |
| Gross Profit  | \$ 7,930            | \$ 8,546            | \$ 15,930           | \$ 18,217           |
| <b>Canvys</b> |                     |                     |                     |                     |
| Net Sales     | \$ 10,417           | \$ 11,116           | \$ 20,440           | \$ 21,898           |
| Gross Profit  | \$ 2,812            | \$ 3,144            | \$ 5,458            | \$ 6,175            |

A reconciliation of assets to the relevant consolidated amount is as follows (*in thousands*):

|  | December 1,<br>2012 | June 2,<br>2012   |
|--|---------------------|-------------------|
| Segment assets                                   | \$ 57,255           | \$ 54,768         |
| Cash   | 53,518              | 43,893            |
| Investments current                              | 86,395              | 105,009           |
| Other current assets <sup>(1)</sup>              | 11,941              | 10,723            |
| Net property                                     | 4,438               | 4,375             |
| Investments non-current                          | 7,380               | 10,683            |
| Other assets <sup>(2)</sup>                      | 1,474               | 1,458             |
| Assets of discontinued operations <sup>(3)</sup> | 248                 | 514               |
| <b>Total assets</b>                              | <b>\$ 222,649</b>   | <b>\$ 231,423</b> |

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

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

(3) See Footnote 4 Discontinued Operations.

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

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

|                     | Three Months Ended  |                     | Six Months Ended    |                     |
|---------------------|---------------------|---------------------|---------------------|---------------------|
|                     | December 1,<br>2012 | December 3,<br>2011 | December 1,<br>2012 | December 3,<br>2011 |
| <b>Net Sales</b>    |                     |                     |                     |                     |
| North America       | \$ 16,436           | \$ 16,850           | \$ 32,182           | \$ 33,403           |
| Asia/Pacific        | 5,437               | 6,159               | 11,784              | 14,052              |
| Europe              | 12,305              | 12,564              | 23,042              | 26,122              |
| Latin America       | 2,320               | 2,282               | 4,767               | 5,113               |
| Other               | 105                 | 1,283               | 478                 | 1,959               |
| <b>Total</b>        | <b>\$ 36,603</b>    | <b>\$ 39,138</b>    | <b>\$ 72,253</b>    | <b>\$ 80,649</b>    |
| <b>Gross Profit</b> |                     |                     |                     |                     |
| North America       | \$ 5,520            | \$ 5,303            | \$ 10,809           | \$ 10,666           |
| Asia/Pacific        | 1,860               | 2,277               | 4,054               | 4,937               |
| Europe              | 3,806               | 3,962               | 7,030               | 8,347               |
| Latin America       | 788                 | 855                 | 1,616               | 1,917               |
| Other               | (1,232)             | (707)               | (2,121)             | (1,475)             |
| <b>Total</b>        | <b>\$ 10,742</b>    | <b>\$ 11,690</b>    | <b>\$ 21,388</b>    | <b>\$ 24,392</b>    |

We sell our products to customers in diversified industries and perform periodic credit evaluations of our customers' financial condition. Terms are generally on open account, payable net 30 days in North America, and vary throughout Asia/Pacific, Europe, and Latin America. Estimates of credit losses are recorded in the financial statements based on monthly reviews of outstanding accounts. *Other* primarily includes net sales not allocated to a specific geographical region, unabsorbed value-add costs, and other unallocated expenses.

**13. LITIGATION**

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

**14. FAIR VALUE MEASUREMENTS**

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

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

As of December 1, 2012, we held investments that are required to be measured at fair value on a recurring basis. Our investments consist of time deposits and CDs, where face value is equal to fair value, and equity securities of publicly traded companies for which market prices are readily available.



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Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of December 1, 2012, and June 2, 2012, were as follows (*in thousands*):

|                                | Level 1           | Level 2   | Level 3   |
|--------------------------------|-------------------|-----------|-----------|
| <b><u>December 1, 2012</u></b> |                   |           |           |
| Time deposits/CDs              | \$ 93,369         | \$        | \$        |
| Equity securities              | 406               |           |           |
| <b>Total</b>                   | <b>\$ 93,775</b>  | <b>\$</b> | <b>\$</b> |
| <b><u>June 2, 2012</u></b>     |                   |           |           |
| Time deposits/CDs              | \$ 115,318        | \$        | \$        |
| Equity securities              | 374               |           |           |
| <b>Total</b>                   | <b>\$ 115,692</b> | <b>\$</b> | <b>\$</b> |

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

*Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms may, should, could, anticipate, believe, continues, estimate, expect, intend, objective, plan, potential, project and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A, of our Annual Report on Form 10-K filed on July 27, 2012, and in the Company's Proxy Statement on Schedule 14A filed on August 30, 2012. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.*

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

**INTRODUCTION**

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

**Business Overview**

**Results of Operations** an analysis and comparison of our consolidated results of operations for the three and six months ended December 1, 2012, and December 3, 2011, as reflected in our unaudited consolidated statements of comprehensive income (loss.)

**Liquidity, Financial Position, and Capital Resources** a discussion of our primary sources and uses of cash for the six months ended December 1, 2012, and December 3, 2011, and a discussion of changes in our financial position.

**BUSINESS OVERVIEW**

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

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

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

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

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

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

*Electron Device Group* ( EDG ) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO<sub>2</sub> laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

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

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

## **RESULTS OF CONTINUING OPERATIONS**

### **FINANCIAL SUMMARY THREE MONTHS ENDED DECEMBER 1, 2012**

Net sales for the second quarter of fiscal 2013 were \$36.6 million, down 6.5%, compared to net sales of \$39.1 million during the second quarter of last year.

Gross margin as a percentage of net sales decreased to 29.3% during the second quarter of fiscal 2013, compared to 29.9% during the second quarter of last year.

SG&A expenses during the second quarter of fiscal 2013 were \$10.2 million, or 27.9% of net sales, compared to \$10.0 million, or 25.5% of net sales, during the second quarter of last year.

Operating income during the second quarter of fiscal 2013 was \$0.5 million, or 1.4% of net sales, compared to operating income of \$1.7 million, or 4.4% of net sales, during the second quarter of last year.

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

Loss from discontinued operations, net of tax, was \$0.2 million, during the second quarter of fiscal 2013 compared to a loss from discontinued operations, net of tax, of \$0.8 million, during the second quarter of last year.

Net income during the second quarter of fiscal 2013 was \$0.4 million, or \$0.03 per diluted common share, compared to net income of \$0.8 million, or \$0.04 per diluted common share, during the second quarter of last year.

**FINANCIAL SUMMARY SIX MONTHS ENDED DECEMBER 1, 2012**

Net sales for the first six months of fiscal 2013 were \$72.3 million, down 10.4%, compared to net sales of \$80.6 million during the first six months of last year.

Gross margin as a percentage of net sales decreased to 29.6% during the first six months of fiscal 2013, compared to 30.2% during the first six months of last year.

SG&A expenses during the first six months of fiscal 2013 were \$20.4 million, or 28.2% of net sales, compared to \$20.7 million, or 25.7% of net sales, during the first six months of last year.

Operating income during the first six months of fiscal 2013 was \$1.0 million, or 1.4% of net sales, compared to operating income of \$3.7 million, or 4.6% of net sales, during the first six months of last year.

Income from continuing operations during the first six months of fiscal 2013 was \$1.3 million, or \$0.08 per diluted common share, compared to income from continuing operations of \$2.7 million, or \$0.15 per diluted common share, during the first six months of last year.

Loss from discontinued operations, net of tax, was \$0.3 million, during the first six months of fiscal 2013 compared to income from discontinued operations, net of tax, of \$1.8 million, or \$0.10 per diluted common share, during the first six months of last year.

Net income during the first six months of fiscal 2013 was \$1.0 million, or \$0.06 per diluted common share, compared to net income of \$4.5 million, or \$0.25 per diluted common share, during the first six months of last year.

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

During the second quarter of fiscal 2013, consolidated net sales decreased 6.5% to \$36.6 million, compared to \$39.1 million during the second quarter of fiscal 2012. During the first six months of fiscal 2013, consolidated net sales decreased 10.4% to \$72.3 million, compared to \$80.6 million during the first six months of fiscal 2012.

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

**Net Sales**

|                              | <b>FY 2013</b> | <b>FY 2012</b> | <b>% Change</b> |
|------------------------------|----------------|----------------|-----------------|
| <b><u>Second Quarter</u></b> |                |                |                 |
| EDG                          | \$ 26,186      | \$ 28,022      | (6.6%)          |
| Canvys                       | 10,417         | 11,116         | (6.3%)          |
| Total                        | \$ 36,603      | \$ 39,138      | (6.5%)          |

|                                | <b>FY 2013</b> | <b>FY 2012</b> | <b>% Change</b> |
|--------------------------------|----------------|----------------|-----------------|
| <b><u>First Six Months</u></b> |                |                |                 |
| EDG                            | \$ 51,813      | \$ 58,751      | (11.8%)         |
| Canvys                         | 20,440         | 21,898         | (6.7%)          |
| Total                          | \$ 72,253      | \$ 80,649      | (10.4%)         |

Consolidated gross profit as a percentage of net sales decreased to 29.3% during the second quarter of fiscal 2013, as compared to 29.9% during the second quarter of fiscal 2012 and to 29.6% during the first six months of fiscal 2013, as compared to 30.2% during the first six months of fiscal 2012.

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

Gross profit by segment and percent of segment net sales during the second quarter and first six months of fiscal 2013 and 2012 were as follows (*in thousands*):

**Gross Profit**

|                             | <b>FY 2013</b> | <b>% of Net Sales</b> | <b>FY 2012</b> | <b>% of Net Sales</b> |
|-----------------------------|----------------|-----------------------|----------------|-----------------------|
| <b><u>First Quarter</u></b> |                |                       |                |                       |
| EDG                         | \$ 7,930       | 30.3%                 | \$ 8,546       | 30.5%                 |
| Canvys                      | 2,812          | 27.0%                 | 3,144          | 28.3%                 |
| Total                       | \$ 10,742      | 29.3%                 | \$ 11,690      | 29.9%                 |

|                                | <b>FY 2013</b> | <b>% of Net Sales</b> | <b>FY 2012</b> | <b>% of Net Sales</b> |
|--------------------------------|----------------|-----------------------|----------------|-----------------------|
| <b><u>First Six Months</u></b> |                |                       |                |                       |
| EDG                            | \$ 15,930      | 30.7%                 | \$ 18,217      | 31.0%                 |
| Canvys                         | 5,458          | 26.7%                 | 6,175          | 28.2%                 |
| Total                          | \$ 21,388      | 29.6%                 | \$ 24,392      | 30.2%                 |

*Electron Device Group*

Net sales for EDG decreased 6.6% to \$26.2 million during the second quarter of fiscal 2013, from \$28.0 million during the second quarter of fiscal 2012. Net sales of tubes decreased to \$20.9 million during the second quarter of fiscal 2013, as compared to \$22.7 million during the second quarter of fiscal 2012, due primarily to economic concerns and weaker demand in the plastic, wood and semiconductor fabrication markets. Gross margin as a percentage of net sales decreased slightly to 30.3% during the second quarter of fiscal 2013, as compared to 30.5% during the second quarter of fiscal 2012. The overall decrease in gross margin primarily reflects unabsorbed manufacturing labor and overhead costs associated with the decline in demand for semiconductor wafer fabrication components.

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Net sales for EDG decreased 11.8% to \$51.8 million during the first six months of fiscal 2013, from \$58.8 million during the first six months of fiscal 2012. Net sales of tubes decreased to \$41.3 million during the first six months of fiscal 2013, as compared to \$47.9 million during the first six months of fiscal 2012, relating to the reasons mentioned above. Gross margin as a percentage of net sales decreased slightly to 30.7% during the first six months of fiscal 2013, as compared to 31.0% during the first six months of fiscal 2012. The overall decrease in gross margin primarily reflects under absorption in manufacturing due to the decline in demand for semiconductor wafer fabrication components.

***Canvys***

Canvys net sales decreased 6.3% to \$10.4 million during the second quarter of fiscal 2013, from \$11.1 million during the second quarter of fiscal 2012. Sales increased in the North America Custom OEM and Healthcare segments, while sales in Europe were down due to the continuing effect of the economic environment. Gross margin as a percentage of net sales decreased to 27.0% during the second quarter of fiscal 2013 as compared to 28.3% during the second quarter of fiscal 2012, due primarily to lower margin in Europe associated with customer mix and currency exchange.

Canvys net sales decreased 6.7% to \$20.4 million during the first six months of fiscal 2013, from \$21.9 million during the first six months of fiscal 2012. Sales increased in the North America Custom OEM and Healthcare segments, while sales in Europe were down due to the continuing effect of the economic environment on German exports. Gross margin as a percentage of net sales decreased to 26.7% during the first six months of fiscal 2013 as compared to 28.2% during the first six months of fiscal 2012, due primarily to lower margin in Europe associated with customer mix and currency exchange.

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

Selling, general, and administrative expenses ( SG&A ) increased during the second quarter of fiscal 2013 to \$10.2 million from \$10.0 million during the second quarter of fiscal 2012. The \$0.2 million increase includes a \$0.5 million increase of SG&A for EDG and a \$0.1 million increase of SG&A for Canvys, offset by a \$0.4 million reduction of total company support function costs. The increase of \$0.5 million within EDG was due primarily to increases in bad debt expense, employee related costs, and product development costs. The increase of \$0.1 million within Canvys was due primarily to employee related costs. The decrease of \$0.4 million in total company support function costs was due primarily to decreases in professional services.

SG&A decreased during the first six months of fiscal 2013 to \$20.4 million from \$20.7 million during the first six months of fiscal 2012. The \$0.3 million decrease includes a \$0.2 million reduction of SG&A for Canvys and a \$0.7 million reduction of total company support function costs, offset by a \$0.6 million increase of SG&A for EDG. The decrease of \$0.2 million within Canvys was due primarily to a reduction in bad debt expense. The decrease of \$0.7 million in support functions was due primarily to headcount reductions and professional services. The increase in SG&A for EDG of \$0.6 million was due primarily to increases in bad debt expense and product development costs.

***Other (Income) Expense***

Other (income) expense was \$0.1 million of income during the second quarter of fiscal 2013, as compared to \$0.7 million of income during the second quarter of fiscal 2012. Other (income) expense included a foreign exchange loss of \$0.3 million during the second quarter of fiscal 2013, as compared to a foreign exchange gain of \$0.5 million during the second quarter of fiscal 2012. Our foreign exchange gains and losses are primarily due to the translation of our U.S. dollars we hold in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The second quarter of fiscal 2013 and fiscal 2012 also included \$0.4 million and \$0.3 million, respectively, of investment/interest income.

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Other (income) expense was \$0.5 million of income during the first six months of fiscal 2013, as compared to \$0.4 million of income during the first six months of fiscal 2012. Other (income) expense included a foreign exchange loss of \$0.3 million during the first six months of fiscal 2013 and fiscal 2012. Our foreign exchange gains and losses are primarily due to the translation of our U.S. dollars we hold in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency. The first six months of fiscal 2013 and fiscal 2012 also included \$0.7 million and \$0.6 million, respectively, of investment/interest income.

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

The effective income tax rate from continuing operations during the first six months of fiscal 2013 was 15.3% as compared to 34.7% during the first six months of fiscal 2012. The decrease in rate during the first six months of fiscal 2013, as compared to fiscal 2012, was due to the decrease in available cash in foreign jurisdictions to distribute unremitted foreign earnings with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*. The effective rate as compared to the federal statutory rate of 34.0% resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, in addition to our position with respect to ASC 740-30, *Income Taxes - Other Considerations or Special Areas*.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state or local, or non-U.S. tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal year 2011. Based on the recent commencement of the audit, no tax matters have arisen that would result in material adjustments. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany and the Netherlands beginning in fiscal 2007.

As of December 1, 2012, \$46.7 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of December 1, 2012, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was \$0.4 million as compared to \$0.5 million as of June 2, 2012. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is reasonably possible that there will be a change in the unrecognized tax benefits related to continuing operations, excluding interest and penalties, in the range of \$0 to approximately \$0.03 million due to the expiration of various statutes of limitations within the next 12 months.

### ***Discontinued Operations***

#### **Arrow Transaction**

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

**Table of Contents****Financial Summary Discontinued Operations**

Summary financial results for the three and six months ended December 1, 2012, and December 3, 2011, are presented in the following table (*in thousands*):

|  | Three Months |             | Six Months  |             |
|--|--------------|-------------|-------------|-------------|
|  | Dec 1, 2012  | Dec 3, 2011 | Dec 1, 2012 | Dec 3, 2011 |
| Net sales  | \$ 278       | \$ 816      | \$ 499      | \$ 1,691    |
| Gross profit (loss)                                    | (128)        | (105)       | (221)       | (374)       |
| Selling, general, and administrative expenses          | 201          | 29          | 266         | (448)       |
| Other (income) expense                                 | 1            |             | 1           |             |
| Additional gain on sale                                |              |             |             | (266)       |
| Income tax provision (benefit)                         | (127)        | 665         | (198)       | (1,463)     |
| Income (loss) from discontinued operations, net of tax | \$ (203)     | \$ (799)    | \$ (290)    | \$ 1,803    |

Net sales and gross profit (loss) for the three and six months ended December 1, 2012, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction. Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products for Arrow. During the first quarter ended September 3, 2011, in connection with an examination by the Internal Revenue Service, we reduced our deferred tax liability by \$2.1 million related to our un-repatriated foreign earnings based on a determination of the earnings and profits that would remain in certain foreign subsidiaries after the Arrow transaction.

Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of December 1, 2012, and June 2, 2012, include the following (*in thousands*):

|   | Dec 1, 2012     | Jun 2, 2012     |
|---|-----------------|-----------------|
| Inventories                                     | \$ 248          | \$ 503          |
| Prepaid expenses and other assets               |                 | 11              |
| <b>Discontinued operations Assets</b>           | <b>\$ 248</b>   | <b>\$ 514</b>   |
| Accrued liabilities - current <sup>(1)</sup>    | \$ 418          | \$ 253          |
| Long-term income tax liabilities <sup>(2)</sup> | 1,380           | 1,361           |
| <b>Discontinued operations Liabilities</b>      | <b>\$ 1,798</b> | <b>\$ 1,614</b> |

(1) Included in accrued liabilities as of December 1, 2012, is a payable to Arrow for transition services of \$1.8 million, offset by a receivable due to us from Arrow for transition services of \$1.4 million.

(2) Included in long-term income tax liabilities as of December 1, 2012, is the reserve for uncertain tax positions.

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. Cash flows related to our discontinued operations are not material.

**Net Income and Per Share Data**

Net income during the second quarter of fiscal 2013 was \$0.4 million, or \$0.03 per diluted common share and \$0.02 per Class B diluted common share, as compared to net income of \$0.8 million during the second quarter of fiscal 2012, or \$0.04 per diluted common share and \$0.05 per Class B diluted common share.



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Net income during the first six months of fiscal 2013 was \$1.0 million, or \$0.06 per diluted common share and \$0.06 per Class B diluted common share, as compared to net income of \$4.5 million during the first six months of fiscal 2012, or \$0.25 per diluted common share and \$0.24 per Class B diluted common share.

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

Our growth and cash needs have been primarily financed through income from operations. Cash and cash equivalents for the first six months ended December 1, 2012, were \$53.5 million. In addition, time deposits and CD's classified as short-term investments were \$86.4 million and long-term investments were \$7.4 million, including equity investments of \$0.4 million. Cash and investments at December 1, 2012, consisted of \$84.6 million in North America, \$19.8 million in Europe, \$1.3 million in Latin America, and \$41.2 million in Asia/Pacific. At June 2, 2012, cash and cash equivalents were \$43.9 million. Time deposits and CD's classified as short-term investments were \$105.0 million and long-term investments were \$10.7 million, including equity investments of \$0.4 million. Cash and investments at June 2, 2012, consisted of \$94.3 million in North America, \$20.7 million in Europe, \$0.7 million in Latin America, and \$43.5 million in Asia/Pacific.

***Cash Flows from Discontinued Operations***

In accordance with ASC 230, *Statement of Cash Flows*, entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. Cash flows related to our discontinued operations are not material.

***Cash Flows from Operating Activities***

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

Operating activities, which include our discontinued operations, provided \$2.9 million of cash during the first six months of fiscal 2013. We had net income of \$1.0 million in the first six months of fiscal 2013, which included non-cash stock-based compensation expense of \$0.3 million associated with the issuance of stock option awards primarily to our directors and officers and non-cash depreciation and amortization expense of \$0.6 million associated with our investments in property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities, net of effects of acquired businesses, provided \$1.0 million of cash during the first six months of fiscal 2013, due primarily to the decrease in our inventory of \$1.7 million, increase in our accounts payable of \$1.2 million, partially offset by an increase in our accounts receivable of \$1.4 million and an increase to our prepaid expenses of \$0.4 million. The decrease in our inventory was the result of reduced inventory purchases during the first six months due to the decline in net sales. The increase in accounts payable of \$1.2 million was due primarily to an increase in accrued vouchers of \$0.6 million and \$0.6 million related to re-classes of customer credit balances in accounts receivable to accounts payable. The increase in our receivables of \$1.4 million was due primarily to the timing of customer payments and a \$0.6 million reclass of customer credit balances to accounts payable. The increase in prepaid expenses of \$0.4 million was due primarily to the renewal of our liability insurance coverage.

Operating activities, which include our discontinued operations, used \$47.0 million of cash during the first six months of fiscal 2012. We had net income of \$4.5 million in the first six months of fiscal 2012, which included non-cash stock-based compensation expense of \$0.3 million associated with the issuance of stock option awards to our directors and officers and non-cash depreciation expense of \$0.6 million associated with our investments in property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities used \$52.3 million of cash during the first six months of fiscal 2012, due primarily to decreases in our operating liabilities, including accounts payable, accrued liabilities, and long-term income tax liabilities, and decreases in our operating assets, including prepaid expenses, as well as increases in our operating assets including inventories and income tax receivable. The decrease in accounts payable of \$3.1 million, excluding the impact of foreign currency exchange of \$0.2 million, was due primarily to the timing of vendor payments. The decrease in accrued liabilities of \$42.9 million, excluding the impact of foreign currency exchange of \$0.4 million, was due primarily to \$33.9 million of cash used for our tax payment related to the sale of RFPD. The decrease in long-term income tax liabilities of \$7.0 million was due primarily to estimated tax payments for the fiscal 2012 and fiscal 2011 tax returns. The increase in prepaid expenses of \$8.4 million was due primarily to the final payment received of \$4.2 million from Arrow for the sale of RFPD and a \$4.1 million decrease of discontinued assets. The increase in inventories of \$5.7 million, excluding the impact of foreign currency exchange of \$0.1 million, was due primarily to increased purchasing to support expected future sales growth. The increase in our income tax receivable of \$5.6 million relates to an overpayment in our estimated federal tax for fiscal year 2011.



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

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

Cash provided by investing activities during the first six months of fiscal 2013, included proceeds from maturities of investments of \$97.5 million, offset by purchases of investments of \$75.6 million, \$2.6 million for the acquisition of D and C, and \$0.6 million in capital expenditures.

Cash used in investing activities during the first six months of fiscal 2012, included purchases of investments of \$285.2 million, \$2.3 million for the acquisition of Powerlink, and \$0.1 million in capital expenditures, offset by proceeds from maturities of investments of \$202.4 million.

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

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

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

Cash used in financing activities of \$13.3 million during the first six months of fiscal 2013, resulted from \$11.6 million of cash used to repurchase common stock and \$1.8 million in dividends paid, offset by \$0.1 million of proceeds from the issuance of common stock. The repurchase of common stock relates to our share repurchase authorizations. Cash dividends paid of \$1.8 million were approved by the Board of Directors on July 24, 2012 and October 9, 2012.

Cash used in financing activities of \$13.2 million during the first six months of fiscal 2012, resulted from \$11.9 million of cash used to repurchase common stock and \$1.7 million in dividends paid, offset by \$0.4 million of proceeds from the issuance of common stock. The repurchase of common stock relates to our share repurchase authorization. Cash dividends paid of \$1.7 million were approved by the Board of Directors on July 19, 2011 and October 4, 2011.

Dividend payments for the first six months of fiscal 2013 were approximately \$1.8 million. All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions, and such other factors that the Board may deem relevant.

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

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

**Inventories:** Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Our inventories included approximately \$32.7 million of finished goods and \$2.6 million of raw materials and work-in-progress as of December 1, 2012, as compared to approximately \$31.8 million of finished goods and \$2.9 million of raw materials and work-in-progress as of June 2, 2012.

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

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

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

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

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

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

**Goodwill and Other Intangible Assets:** Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicate 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. As of December 1, 2012, our goodwill balance was \$2.3 million and represents the premium we paid for Powerlink of \$1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation and the premium we paid for D and C of \$0.9 million during our second quarter of fiscal 2013.

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

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

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

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

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

**Risk Management and Market Sensitive Financial Instruments**

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

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

**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, 2012.

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

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

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

**ITEM 1A. RISK FACTORS**

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

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

| Period                                 | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part<br>of Publicly Announced<br>Plans or Programs | Dollar Amount<br>of<br>Shares Purchased<br>Under the Plans or<br>Programs | Amounts Remaining<br>Under the Share<br>Repurchase<br>Authorization |
|--|--|------------------------------------|---|---|---|
|  |  |                                    | of Publicly Announced<br>Plans or Programs  | of Publicly Announced<br>Plans or Programs                                | Under the Share<br>Repurchase<br>Authorization                      |
| September 1, 2012                      |  |                                    |   |   | \$ 36,780,764   |
| September 2, 2012 - September 29, 2012 | 96,972                                 | \$ 12.11                           | 96,972  | \$ 1,174,044  | \$ 35,606,720   |
| September 30, 2012 - October 27, 2012  | 305,158                                | \$ 11.96                           | 305,158   | \$ 3,649,513  | \$ 31,957,207   |
| October 28, 2012 - December 1, 2012    | 100,815                                | \$ 11.64                           | 100,815   | \$ 1,173,507  | \$ 30,783,700   |
| <b>TOTAL</b>                           | <b>502,945</b>                         | <b>\$ 11.92</b>                    | <b>502,945</b>  | <b>\$ 5,997,064</b>   |   |

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

On January 9, 2013, we issued a press release reporting results for our second quarter and first six months ended December 1, 2012, 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.

**Appointment of Sandeep Beotra as Executive Vice President of Mergers and Acquisitions**

On December 3, 2012, we issued a press release announcing the appointment of Sandeep Beotra as the Executive Vice President of Mergers and Acquisitions.

**ITEM 6. EXHIBITS**

See exhibit index which is incorporated by reference herein.



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**SIGNATURES**

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

RICHARDSON ELECTRONICS, LTD.

Date: January 10, 2013

By: /s/ Kathleen S. Dvorak  
Kathleen S. Dvorak

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

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**Exhibit Index**

**(c) EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1                       | Restated Certificate of Incorporation of the Company, incorporated by reference to Appendix B to the Proxy Statement / Prospectus dated November 13, 1986, incorporated by reference to the Company's Registration Statement on Form S-4.  |
| 3.2                       | Amended and Restated By-Laws of the Company, incorporated by reference to Exhibit 3.2 on the Company's Report on Form 10-Q for the quarterly period ended December 3, 2011.  |
| 31.1                      | Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).  |
| 31.2                      | Certification of Kathleen S. Dvorak pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).  |
| 32                        | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).   |
| 99.1                      | Press release, dated January 9, 2013.  |
| 101                       | The following financial information from our Quarterly Report on Form 10-Q for the second quarter and first six months of fiscal 2013, filed with the SEC on January 10, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of December 1, 2012, and June 2, 2012, (ii) the Unaudited Consolidated Statements of Comprehensive Income (loss) for the three and six months ended December 1, 2012, and December 3, 2011, (iii) the Unaudited Consolidated Statements of Cash Flows for the three and six months ended December 1, 2012, and December 3, 2011, (iv) the Unaudited Consolidated Statement of Stockholder's Equity as of December 1, 2012, and (v) Notes to Unaudited Consolidated Financial Statements. |