

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended November 30, 2019

OR

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

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

Commission File Number: 0-12906



**RICHARDSON ELECTRONICS, LTD.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-2096643**  
(I.R.S. Employer  
Identification No.)

**40W267 Keslinger Road, P.O. Box 393**  
**LaFox, Illinois 60147-0393**

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.05 Par Value	RELL	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

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

As of January 7, 2020, there were outstanding 11,038,235 shares of Common Stock, \$0.05 par value and 2,096,919 shares of Class B Common Stock, \$0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**Richardson Electronics, Ltd.**  
**Consolidated Balance Sheets**  
*(in thousands, except per share amounts)*

	<b>Unaudited</b>	<b>Audited</b>
	<b>November 30, 2019</b>	<b>June 1, 2019</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 33,054	\$ 42,019
Accounts receivable, less allowance of \$278 and \$339, respectively	22,336	24,296
Inventories, net	56,169	53,232
Prepaid expenses and other assets	2,853	3,067
Investments - current	13,000	8,000
<b>Total current assets</b>	<b>127,412</b>	<b>130,614</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	18,361	19,111
Intangible assets, net	2,637	2,763
Lease ROU asset	3,991	—
Non-current deferred income taxes	575	529
<b>Total non-current assets</b>	<b>25,564</b>	<b>22,403</b>
<b>Total assets</b>	<b>\$ 152,976</b>	<b>\$ 153,017</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 15,439	\$ 16,943
Accrued liabilities	10,836	11,273
Lease liability current	1,628	—
<b>Total current liabilities</b>	<b>27,903</b>	<b>28,216</b>
<b>Non-current liabilities:</b>		
Non-current deferred income tax liabilities	241	212
Lease liability non-current	2,437	—
Other non-current liabilities	718	832
<b>Total non-current liabilities</b>	<b>3,396</b>	<b>1,044</b>
<b>Total liabilities</b>	<b>31,299</b>	<b>29,260</b>
<b>Stockholders' equity</b>		
Common stock, \$0.05 par value; issued and outstanding 11,038 shares at November 30, 2019 and 10,957 shares at June 1, 2019	552	547
Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,097 shares at November 30, 2019 and June 1, 2019	105	105
Preferred stock, \$1.00 par value, no shares issued	—	—
Additional paid-in-capital	61,436	61,012
Common stock in treasury, at cost, no shares at November 30, 2019 and June 1, 2019	—	—
Retained earnings	57,688	59,703
Accumulated other comprehensive income	1,896	2,390
<b>Total stockholders' equity</b>	<b>121,677</b>	<b>123,757</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 152,976</b>	<b>\$ 153,017</b>

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>November 30, 2019</b>	<b>December 1, 2018</b>	<b>November 30, 2019</b>	<b>December 1, 2018</b>
<b>Statements of Comprehensive Loss</b>				
Net sales	\$ 39,634	\$ 41,314	\$ 80,287	\$ 85,471
Cost of sales	26,954	28,343	54,656	58,547
<b>Gross profit</b>	<b>12,680</b>	<b>12,971</b>	<b>25,631</b>	<b>26,924</b>
Selling, general and administrative expenses	13,161	13,425	26,008	26,524
Loss on disposal of assets	—	—	1	—
<b>Operating (loss) income</b>	<b>(481)</b>	<b>(454)</b>	<b>(378)</b>	<b>400</b>
Other expense (income):				
Investment/interest income	(123)	(121)	(243)	(247)
Foreign exchange loss (gain)	199	(211)	89	75
Other, net	(15)	4	(16)	(4)
Total other expense (income)	61	(328)	(170)	(176)
(Loss) income before income taxes	(542)	(126)	(208)	576
Income tax provision	80	178	257	449
<b>Net (loss) income</b>	<b>(622)</b>	<b>(304)</b>	<b>(465)</b>	<b>127</b>
Foreign currency translation gain (loss), net of tax	222	(1,041)	(494)	(1,781)
<b>Comprehensive loss</b>	<b>\$ (400)</b>	<b>\$ (1,345)</b>	<b>\$ (959)</b>	<b>\$ (1,654)</b>
Net (loss) income per share				
Common shares - Basic	\$ (0.05)	\$ (0.02)	\$ (0.04)	\$ 0.01
Class B common shares - Basic	\$ (0.04)	\$ (0.02)	\$ (0.03)	\$ 0.01
Common shares - Diluted	\$ (0.05)	\$ (0.02)	\$ (0.04)	\$ 0.01
Class B common shares - Diluted	\$ (0.04)	\$ (0.02)	\$ (0.03)	\$ 0.01
<b>Weighted average number of shares:</b>				
Common shares – Basic	11,038	10,952	11,014	10,890
Class B common shares – Basic	2,097	2,097	2,097	2,114
Common shares – Diluted	11,038	10,952	11,014	11,053
Class B common shares – Diluted	2,097	2,097	2,097	2,114
<b>Dividends per common share</b>	<b>\$ 0.060</b>	<b>\$ 0.060</b>	<b>\$ 0.120</b>	<b>\$ 0.120</b>
<b>Dividends per Class B common share</b>	<b>\$ 0.054</b>	<b>\$ 0.054</b>	<b>\$ 0.108</b>	<b>\$ 0.108</b>

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>November 30, 2019</b>	<b>December 1, 2018</b>	<b>November 30, 2019</b>	<b>December 1, 2018</b>
<b>Operating activities:</b>				
<b>Net (loss) income</b>	\$ (622)	\$ (304)	\$ (465)	\$ 127
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:				
Depreciation and amortization	825	792	1,658	1,556
Inventory provisions	120	150	281	365
Loss on disposal of assets	—	—	1	—
Share-based compensation expense	182	230	370	395
Deferred income taxes	23	97	(25)	155
Change in assets and liabilities:				
Accounts receivable	(335)	100	1,826	(98)
Inventories	(2,062)	(1,908)	(3,419)	(1,831)
Prepaid expenses and other assets	(423)	(319)	202	(282)
Accounts payable	2,590	1,538	(1,365)	(3,881)
Accrued liabilities	486	344	(390)	571
Other	(165)	161	(109)	174
<b>Net cash provided by (used in) operating activities</b>	<b>619</b>	<b>881</b>	<b>(1,435)</b>	<b>(2,749)</b>
<b>Investing activities:</b>				
Capital expenditures	(475)	(1,120)	(814)	(2,192)
Proceeds from maturity of investments	—	—	8,000	—
Purchases of investments	(13,000)	(3,000)	(13,000)	(5,300)
<b>Net cash used in investing activities</b>	<b>(13,475)</b>	<b>(4,120)</b>	<b>(5,814)</b>	<b>(7,492)</b>
<b>Financing activities:</b>				
Proceeds from issuance of common stock	59	11	59	203
Cash dividends paid	(775)	(770)	(1,550)	(1,534)
Payment of financing lease principal	(45)	—	(75)	—
Other	(4)	—	—	—
<b>Net cash used in financing activities</b>	<b>(765)</b>	<b>(759)</b>	<b>(1,566)</b>	<b>(1,331)</b>
Effect of exchange rate changes on cash and cash equivalents	218	(621)	(150)	(1,034)
<b>Decrease in cash and cash equivalents</b>	<b>(13,403)</b>	<b>(4,619)</b>	<b>(8,965)</b>	<b>(12,606)</b>
Cash and cash equivalents at beginning of period	46,457	52,478	42,019	60,465
<b>Cash and cash equivalents at end of period</b>	<b>\$ 33,054</b>	<b>\$ 47,859</b>	<b>\$ 33,054</b>	<b>\$ 47,859</b>

**Richardson Electronics, Ltd.**  
**Unaudited Consolidated Statement of Stockholders' Equity**  
*(in thousands, except per share amounts)*

	Common	Class B Common	Par Value	Additional Paid In Capital	Common Stock in Treasury	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance June 1, 2019:</b>	<b>10,957</b>	<b>2,097</b>	<b>\$ 652</b>	<b>\$ 61,012</b>	<b>\$ —</b>	<b>\$ 59,703</b>	<b>\$ 2,390</b>	<b>\$123,757</b>
<b>Comprehensive loss</b>								
Net loss	—	—	—	—	—	(465)	—	(465)
Foreign currency translation	—	—	—	—	—	—	(494)	(494)
Share-based compensation:								
Restricted stock	—	—	—	214	—	—	—	214
Stock options	—	—	—	156	—	—	—	156
Common stock:								
Options exercised	10	—	1	58	—	—	—	59
Restricted stock issuance	71	—	4	(4)	—	—	—	—
Dividends paid to:								
Common (\$0.120 per share)	—	—	—	—	—	(1,324)	—	(1,324)
Class B (\$0.108 per share)	—	—	—	—	—	(226)	—	(226)
<b>Balance November 30, 2019:</b>	<b><u>11,038</u></b>	<b><u>2,097</u></b>	<b><u>657</u></b>	<b><u>61,436</u></b>	<b><u>\$ —</u></b>	<b><u>57,688</u></b>	<b><u>1,896</u></b>	<b><u>121,677</u></b>
<b>Balance August 31, 2019:</b>	<b>11,029</b>	<b>2,097</b>	<b>\$ 656</b>	<b>\$ 61,200</b>	<b>\$ —</b>	<b>\$ 59,085</b>	<b>\$ 1,674</b>	<b>\$122,615</b>
<b>Comprehensive (loss) income</b>								
Net loss	—	—	—	—	—	(622)	—	(622)
Foreign currency translation	—	—	—	—	—	—	222	222
Share-based compensation:								
Restricted stock	—	—	—	115	—	—	—	115
Stock options	—	—	—	67	—	—	—	67
Common stock:								
Options exercised	10	—	1	58	—	—	—	59
Restricted stock issuance	(1)	—	—	(4)	—	—	—	(4)
Dividends paid to:								
Common (\$0.06 per share)	—	—	—	—	—	(662)	—	(662)
Class B (\$0.054 per share)	—	—	—	—	—	(113)	—	(113)
<b>Balance November 30, 2019:</b>	<b><u>11,038</u></b>	<b><u>2,097</u></b>	<b><u>657</u></b>	<b><u>61,436</u></b>	<b><u>\$ —</u></b>	<b><u>57,688</u></b>	<b><u>1,896</u></b>	<b><u>121,677</u></b>

		Class B	Par	Additional	Common		Accumulated	
	Common	Common	Value	Paid In	Stock in	Retained	Other	
	Common	Common	Value	Capital	Treasury	Earnings	Comprehensive	Total
<b>Balance June 2, 2018:</b>	<b>10,806</b>	<b>2,137</b>	<b>\$ 647</b>	<b>\$ 60,061</b>	<b>\$ —</b>	<b>\$ 70,107</b>	<b>\$ 4,366</b>	<b>\$135,181</b>
<b>Comprehensive (loss) income</b>								
Net income	—	—	—	—	—	127	—	127
Foreign currency translation	—	—	—	—	—	—	(1,781)	(1,781)
Share-based compensation:								
Restricted stock	—	—	—	136	—	—	—	136
Stock options	—	—	—	259	—	—	—	259
Common stock:								
Options exercised	37	—	2	201	—	—	—	203
Restricted stock issuance	70	—	3	(3)	—	—	—	—
Converted Class B to common	40	(40)	—	—	—	—	—	—
Dividends paid to:								
Common (\$0.120 per share)	—	—	—	—	—	(1,306)	—	(1,306)
Class B (\$0.108 per share)	—	—	—	—	—	(228)	—	(228)
<b>Balance December 1, 2018:</b>	<b>10,953</b>	<b>2,097</b>	<b>652</b>	<b>60,654</b>	<b>\$ —</b>	<b>68,700</b>	<b>2,585</b>	<b>132,591</b>
<b>Balance September 1, 2018:</b>	<b>10,951</b>	<b>2,097</b>	<b>\$ 652</b>	<b>\$ 60,413</b>	<b>\$ —</b>	<b>\$ 69,774</b>	<b>\$ 3,626</b>	<b>\$134,465</b>
<b>Comprehensive (loss) income</b>								
Net loss	—	—	—	—	—	(304)	—	(304)
Foreign currency translation	—	—	—	—	—	—	(1,041)	(1,041)
Share-based compensation:								
Restricted stock	—	—	—	91	—	—	—	91
Stock options	—	—	—	139	—	—	—	139
Common stock:								
Options exercised	2	—	—	11	—	—	—	11
Restricted stock issuance	—	—	—	—	—	—	—	—
Converted Class B to common	—	—	—	—	—	—	—	—
Dividends paid to:								
Common (\$0.06 per share)	—	—	—	—	—	(658)	—	(658)
Class B (\$0.054 per share)	—	—	—	—	—	(112)	—	(112)
<b>Balance December 1, 2018:</b>	<b>10,953</b>	<b>2,097</b>	<b>652</b>	<b>60,654</b>	<b>\$ —</b>	<b>68,700</b>	<b>2,585</b>	<b>132,591</b>

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE COMPANY

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

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

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

Power and Microwave Technologies Group ("PMT") combines our core engineered solutions capabilities, power grid and microwave tube business with new RF, Wireless and disruptive power technologies. As a manufacturer, technology partner and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in 5G, alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

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

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

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

### 2. BASIS OF PRESENTATION

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

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The second quarter of fiscal 2020 and fiscal 2019 both contained 13 weeks. The first six months of fiscal 2020 and fiscal 2019 both contained 26 weeks.

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the three and six months ended November 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending May 30, 2020.

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 1, 2019, that we filed on August 5, 2019.



### 3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

**Inventories, net:** Our consolidated inventories were stated at the lower of cost and net realizable value, generally using a weighted-average cost method. Our net inventories include approximately \$50.3 million of finished goods, \$3.8 million of raw materials and \$2.1 million of work-in-progress as of November 30, 2019, as compared to approximately \$47.2 million of finished goods, \$4.2 million of raw materials and \$1.8 million of work-in-progress as of June 1, 2019.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs. Provisions for obsolete or slow moving inventories are recorded based upon regular analysis of stock rotation privileges, obsolescence, the exiting of certain markets and assumptions about future demand and market conditions. If future demand changes in the industry, or market conditions differ from management's estimates, additional provisions may be necessary. Inventory reserves were approximately \$4.7 million as of November 30, 2019 and \$4.6 million as of June 1, 2019.

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

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

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

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

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

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

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

	November 30, 2019	June 1, 2019
Compensation and payroll taxes	\$ 3,264	\$ 2,846
Accrued severance	500	520
Professional fees	552	471
Deferred revenue	1,624	2,260
Other accrued expenses	4,896	5,176
<b>Accrued Liabilities</b>	<b>\$ 10,836</b>	<b>\$ 11,273</b>

#### 4. REVENUE RECOGNITION

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

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

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

##### *Contracts with customers*

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

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

	June 1, 2019	Additions	Revenue Recognized	November 30, 2019
Contract liabilities (deferred revenue)	\$ 2,260	\$ 1,169	\$ (1,805)	\$ 1,624

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

### *Performance obligations and satisfaction of performance obligation in the contract*

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

### *Determine the transaction price and variable consideration*

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

### *Recognize revenue when the entity satisfies a performance obligation*

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

### *Additional considerations*

#### *Sale with right of return:*

Our return policy is available to customers in our terms and conditions found on our website [www.rell.com](http://www.rell.com). The policy varies by business unit. The Company allows returns with prior written authorization and we allow returns within 10 days of shipment for replacement parts.

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

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

#### *Warranties:*

We offer warranties for the limited number of specific products we manufacture. Our warranty terms generally range from one to three years. We estimate the cost to perform under the warranty obligation and recognize this estimated cost at the time of sale. Each quarter, we assess actual warranty costs incurred on a product-by-product basis and compare the warranty costs to our estimated warranty reserve. With respect to new products, estimates are based generally on knowledge of the products and warranty experience, if a sufficient history exists. See Note 7, *Warranties*, for further information regarding the impact of warranties concerning ASU 2014-09.

## Principal versus agent considerations:

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

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

## 5. INTANGIBLE ASSETS

Intangible assets are initially recorded at their fair market values determined by quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized over their useful lives and are tested for impairment when events or changes in circumstances occur that indicate possible impairment.

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

	November 30, 2019	June 1, 2019
<b>Gross Amounts:</b>		
Trade Name	\$ 659	\$ 659
Customer Relationships <sup>(1)</sup>	3,400	3,394
Non-compete Agreements	177	177
Technology	230	230
<b>Total Gross Amounts</b>	<u>\$ 4,466</u>	<u>\$ 4,460</u>
<b>Accumulated Amortization:</b>		
Trade Name	\$ 659	\$ 659
Customer Relationships	904	796
Non-compete Agreements	150	139
Technology	116	103
<b>Total Accumulated Amortization</b>	<u>\$ 1,829</u>	<u>\$ 1,697</u>
<b>Net Intangible Assets</b>	<u>\$ 2,637</u>	<u>\$ 2,763</u>

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

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

Fiscal Year	Amortization Expense
Remaining 2020	\$ 224
2021	246
2022	251
2023	245
2024	232
Thereafter	1,439
<b>Total amortization expense</b>	<u>\$ 2,637</u>

The weighted average number of years of amortization expense remaining is 14.2 years.

## 6. INVESTMENTS

As of November 30, 2019, we had \$13.0 million invested in CDs which mature in less than twelve months. The fair value of these investments was equal to the face value of the CDs.

As of June 1, 2019, we had \$8.0 million invested in CDs which mature in less than twelve months. The fair value of these investments was equal to the face value of the CDs.

## 7. WARRANTIES

We offer warranties for the limited number of specific products we manufacture. Our warranty terms generally range from one to three years.

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

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 \$0.4 million as of November 30, 2019 and \$0.3 million as of June 1, 2019.

## 8. LEASE OBLIGATIONS, OTHER COMMITMENTS AND CONTINGENCIES

In February 2016, the FASB issued ASU 2016-02 (“ASU 2016-02”), *Leases* (“Topic 842”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company elects the practical expedients (which must be elected as a package and applied consistently to all of our leases) for which we will not reassess: (1) whether any expired or existing contracts are or contains leases, (2) the lease classification for any expired or existing leases and (3) the initial indirect costs for any existing leases. We have also elected the practical expedient to combine lease and non-lease components for all of our leases. We have adopted an accounting policy to not apply the requirements of Topic 842 to leases with a term of 12 months or less, which the Company has within our facility leases. Short-term leases will be reassessed if events occur that disqualify them from short-term status.

The new standard was effective for the Company on June 2, 2019. The FASB issued ASU 2018-11, targeted improvements to Topic 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of Topic 842 as the date of initial application of transition. We adopted the new standard applying the new transition method allowed under ASU 2018-11. As a result of adopting Topic 842, at November 30, 2019, we recognized operating right-of-use assets of \$3.5 million, finance right-of-use assets of \$0.5 million, operating lease liabilities of \$3.7 million and finance lease liabilities of \$0.4 million. Existing deferred rent of \$0.1 million was recorded as an offset to our gross operating lease right-of-use assets. Several leases include renewal clauses which vary in length and may not include specific rent renewal amounts. The Company will revise the value of the right of use assets and associated lease liabilities when the Company is reasonably certain it will renew the lease. The standard did not have a material impact on our results of operations or cash flows.

The gross amounts of assets and liabilities related to both operating and finance leases at November 30, 2019 were as follows (*in thousands*):

Lease Type	Amount
Operating lease ROU asset	\$ 3,544
Finance lease ROU asset	447
Total Lease ROU asset	<u>\$ 3,991</u>
Operating lease liability current	\$ 1,476
Finance lease liability current	152
Total lease liability current	<u>\$ 1,628</u>
Operating lease liability non-current	\$ 2,189
Finance lease liability non-current	248
Total lease liability non-current	<u>\$ 2,437</u>

The components of lease costs were as follows *(in thousands)*:

<b>Lease Type</b>	<b>Classification</b>	<b>Three Months Ended November 30, 2019</b>	<b>Six Months Ended November 30, 2019</b>
Consolidated operating lease expense	Operating expenses	\$ 468	\$ 946
Consolidated finance lease amortization	Operating expenses	16	16
Consolidated finance lease interest	Interest expense	5	14
Consolidated finance lease expense		21	30
Net lease cost		<u>\$ 489</u>	<u>\$ 976</u>

The Company recorded \$0.5 million and \$0.9 million of lease expense in the second quarter and first six months of fiscal 2019, respectively.

The approximate future minimum lease payments under operating and finance leases at November 30, 2019 were as follows *(in thousands)*:

<b>Fiscal Year</b>	<b>Operating Leases</b>	<b>Finance Lease</b>	<b>Total</b>
Remaining 2020	\$ 821	\$ 91	\$ 912
2021	1,450	181	1,631
2022	677	151	828
2023	449	—	449
2024	309	—	309
Thereafter	241	—	241
Total lease payments	3,947	423	4,370
Less imputed interest	282	22	304
Net minimum lease payments	<u>\$ 3,665</u>	<u>\$ 401</u>	<u>\$ 4,066</u>

The approximate future minimum lease payments under operating and finance leases at June 1, 2019 were as follows *(in thousands)*:

<b>Fiscal Year (1)</b>	<b>Operating Leases</b>
2020	\$ 1,586
2021	1,367
2022	509
2023	340
2024	289
Thereafter	234

- (1) On June 2, 2019, the Company elected the modified retrospective method of transition to adopt the new lease standard Topic 842, which resulted in no restatement of prior period results. At June 1, 2019, prior to adoption of the new lease standard, operating lease obligations were not included as a liability on the balance sheet. Therefore, the operating lease obligations were included in the table for comparative purposes only and the total lease liability was not included as it is not applicable.

The weighted average remaining lease terms and interest rates of leases held by the Company as of November 30, 2019 were as follows:

<b>Lease Type</b>	<b>Weighted Average Remaining Lease Term in Years</b>	<b>Weighted Average Interest Rate</b>
Operating leases	3.3	4.6%
Finance lease	2.4	4.6%

The cash outflows of the leasing activity of the Company as lessee for the six months ending November 30, 2019 were as follows (*in thousands*):

Cash Flow Source	Classification	Amount
Operating cash flows from operating leases	Operating activities	\$ 367
Operating cash flows from finance lease	Operating activities	67
Finance cash flows from finance lease	Financing activities	75

## 9. INCOME TAXES

We recorded an income tax provision of \$0.3 million and \$0.4 million for the first six months of fiscal 2020 and the first six months of fiscal 2019, respectively. The effective income tax rate during the first six months of fiscal 2020 was a tax provision of (123.6)% as compared to a tax provision of 77.9% during the first six months of fiscal 2019. The difference in rate during the first six months of fiscal 2020 as compared to the first six months of fiscal 2019 reflects changes in our geographical distribution of income (loss). The (123.6)% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss) and the movement of the valuation allowance against our U.S. state and federal net deferred tax assets.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2009 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2012.

We have historically determined that certain undistributed earnings of our foreign subsidiaries, to the extent of cash available, will be repatriated to the U.S. We have provided a deferred tax liability totaling \$0.2 million as of November 30, 2019. As of June 1, 2019, the deferred tax liability totaled \$0.2 million.

As of November 30, 2019, our worldwide liability for uncertain tax positions related to continuing operations was \$0.1 million, excluding interest and penalties as compared to \$0.1 million liabilities for uncertain tax positions as of June 1, 2019. There was no change in recorded uncertain tax positions during the first six months of fiscal 2020. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the consolidated statements of comprehensive loss.

The valuation allowance against the net deferred tax assets that will more likely than not be realized was \$11.7 million as of June 1, 2019. The valuation allowance against the net deferred tax assets was \$11.9 million as of November 30, 2019 as no material additional domestic federal and state net deferred tax assets were generated during the second quarter of fiscal 2020 from losses in the U.S. jurisdiction. A full valuation allowance on the U.S. and state deferred tax assets will be maintained until sufficient positive evidence related to sources of future taxable income exists to support a reversal of the valuation allowance. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

## 10. CALCULATION OF EARNINGS PER SHARE

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

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

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

	Three Months Ended			
	November 30, 2019		December 1, 2018	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
<b>Net loss</b>	\$ (622)	\$ (622)	\$ (304)	\$ (304)
Less dividends:				
Common stock	662	662	658	658
Class B common stock	113	113	112	112
Undistributed losses	<u>\$ (1,397)</u>	<u>\$ (1,397)</u>	<u>\$ (1,074)</u>	<u>\$ (1,074)</u>
Common stock undistributed losses	<u>\$ (1,193)</u>	<u>\$ (1,193)</u>	<u>\$ (916)</u>	<u>\$ (916)</u>
Class B common stock undistributed losses	<u>(204)</u>	<u>(204)</u>	<u>(158)</u>	<u>(158)</u>
Total undistributed losses	<u>\$ (1,397)</u>	<u>\$ (1,397)</u>	<u>\$ (1,074)</u>	<u>\$ (1,074)</u>
<i>Denominator for Basic and Diluted EPS:</i>				
Common stock weighted average shares	<u>11,038</u>	11,038	<u>10,952</u>	10,952
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	<u>2,097</u>	2,097	<u>2,097</u>	2,097
Effect of dilutive securities				
Dilutive stock options		—		—
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		<u>13,135</u>		<u>13,049</u>
<b>Net loss per share:</b>				
Common stock	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
Class B common stock	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2020 and fiscal 2019 were 860 and 117, respectively.*



	Six Months Ended			
	November 30, 2019		December 1, 2018	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
<b>Net (loss) income</b>	\$ (465)	\$ (465)	\$ 127	\$ 127
Less dividends:				
Common stock	1,324	1,324	1,306	1,306
Class B common stock	226	226	228	228
Undistributed losses	\$ (2,015)	\$ (2,015)	\$ (1,407)	\$ (1,407)
Common stock undistributed losses	\$ (1,720)	\$ (1,720)	\$ (1,198)	\$ (1,200)
Class B common stock undistributed losses	(295)	(295)	(209)	(207)
Total undistributed losses	\$ (2,015)	\$ (2,015)	\$ (1,407)	\$ (1,407)
<i>Denominator for Basic and Diluted EPS:</i>				
Common stock weighted average shares	11,014	11,014	10,890	10,890
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	2,097	2,097	2,114	2,114
Effect of dilutive securities				
Dilutive stock options		—		163
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		13,111		13,167
<b>Net (loss) income per share:</b>				
Common stock	\$ (0.04)	\$ (0.04)	\$ 0.01	\$ 0.01
Class B common stock	\$ (0.03)	\$ (0.03)	\$ 0.01	\$ 0.01

*Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2020 were 916.*

## 11. SEGMENT REPORTING

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

PMT combines our core engineered solutions capabilities, power grid and microwave tube business with new RF, Wireless and disruptive power technologies. As a manufacturer, technology partner and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in 5G, alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

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

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

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

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

	Three Months Ended		Six Months Ended	
	November 30, 2019	December 1, 2018	November 30, 2019	December 1, 2018
<b><u>PMT</u></b>				
Net Sales	\$ 29,603	\$ 32,328	\$ 60,170	\$ 67,097
Gross Profit	9,349	10,107	19,028	21,114
<b><u>Canvys</u></b>				
Net Sales	\$ 7,856	\$ 6,498	\$ 15,133	\$ 13,671
Gross Profit	2,585	2,132	4,906	4,445
<b><u>Healthcare</u></b>				
Net Sales	\$ 2,175	\$ 2,488	\$ 4,984	\$ 4,703
Gross Profit	746	732	1,697	1,365

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	
	November 30, 2019	December 1, 2018	November 30, 2019	December 1, 2018
<b><u>Net Sales</u></b>				
North America	\$ 15,306	\$ 16,825	\$ 32,540	\$ 33,848
Asia/Pacific	9,277	8,520	17,800	18,062
Europe	13,210	13,393	26,134	28,149
Latin America	1,859	2,559	3,837	5,373
Other (1)	(18)	17	(24)	39
Total	<u>\$ 39,634</u>	<u>\$ 41,314</u>	<u>\$ 80,287</u>	<u>\$ 85,471</u>
<b><u>Gross Profit</u></b>				
North America	\$ 5,797	\$ 6,518	\$ 12,104	\$ 13,105
Asia/Pacific	3,056	2,701	5,649	5,706
Europe	4,015	4,215	8,146	8,738
Latin America	644	955	1,344	2,021
Other (1)	(832)	(1,418)	(1,612)	(2,646)
Total	<u>\$ 12,680</u>	<u>\$ 12,971</u>	<u>\$ 25,631</u>	<u>\$ 26,924</u>

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

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

## 12. LITIGATION

On October 15, 2018, Varex Imaging Corporation ("Varex") filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics Ltd. ("Richardson") in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson's ALTA750™ product. Richardson filed an opposition to the preliminary injunction. In January 2019, the Court took evidence on the preliminary injunction issue. On September 30, 2019, the Court soundly denied Varex's Motion for Preliminary Injunction. Richardson believes the lawsuit to be without merit and a loss is not probable or estimable based on the information at the time the financial statements were issued.

### 13. FAIR VALUE MEASUREMENTS

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

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

As of November 30, 2019, we held investments that were required to be measured at fair value on a recurring basis. Our investments consisted of CDs where face value was equal to fair value.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of November 30, 2019 were as follows (*in thousands*):

	Level 1
CDs	13,000

### 14. RELATED PARTY TRANSACTION

On June 15, 2015, the Company entered into a lease agreement for the IMES facility with LDL, LLC. The Executive Vice President of IMES, Lee A. McIntyre III (former owner of IMES), has an ownership interest in LDL, LLC. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.1 million. Rental expense related to this lease amounted to \$0.1 million for the six months ended November 30, 2019 and for the six months ended December 1, 2018. The Company shall be entitled to extend the term of the lease for a period of an additional five years by notifying the landlord in writing of its intention to do so within six months of the expiration of the initial term.

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

*Certain statements in this report may constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms "may," "should," "could," "anticipate," "believe," "continues," "estimate," "expect," "intend," "objective," "plan," "potential," "project" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of our Annual Report on Form 10-K filed on August 5, 2019. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.*

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

### INTRODUCTION

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

- **Business Overview**
- **Results of Operations** – an analysis and comparison of our consolidated results of operations for the three and six month periods ended November 30, 2019 and December 1, 2018, as reflected in our consolidated statements of comprehensive loss.
- **Liquidity, Financial Position and Capital Resources** – a discussion of our primary sources and uses of cash for the six month periods ended November 30, 2019 and December 1, 2018, and a discussion of changes in our financial position.

### Business Overview

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

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

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

Power and Microwave Technologies Group ("PMT") combines our core engineered solutions capabilities, power grid and microwave tube business with new RF, Wireless and disruptive power technologies. As a manufacturer, technology partner and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in 5G, alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

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

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

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

## **RESULTS OF OPERATIONS**

### **Financial Summary – Three Months Ended November 30, 2019**

- The second quarter of fiscal 2020 and fiscal 2019 each contained 13 weeks.
- Net sales during the second quarter of fiscal 2020 were \$39.6 million, a decrease of 4.1%, compared to net sales of \$41.3 million during the second quarter of fiscal 2019.
- Gross margin increased to 32.0% during the second quarter of fiscal 2020 compared to 31.4% during the second quarter of fiscal 2019.
- Selling, general and administrative expenses were \$13.2 million, or 33.2% of net sales, during the second quarter of fiscal 2020 compared to \$13.4 million, or 32.5% of net sales, during the second quarter of fiscal 2019.
- Operating loss during the second quarter of fiscal 2020 was \$0.5 million compared to an operating loss of \$0.5 million during the second quarter of fiscal 2019.
- Net loss during the second quarter of fiscal 2020 was \$0.6 million compared to net loss of \$0.3 million during the second quarter of fiscal 2019.

### **Financial Summary – Six Months Ended November 30, 2019**

- The first six months of fiscal 2020 and fiscal 2019 each contained 26 weeks.
- Net sales during the first six months of fiscal 2020 were \$80.3 million, a decrease of 6.1%, compared to net sales of \$85.5 million during the first six months of fiscal 2019.
- Gross margin increased to 31.9% during the first six months of fiscal 2020 compared to 31.5% during the first six months of fiscal 2019.
- Selling, general and administrative expenses were \$26.0 million, or 32.4% of net sales, during the first six months of fiscal 2020 compared to \$26.5 million, or 31.0% of net sales, during the first six months of fiscal 2019.
- Operating loss during the first six months of fiscal 2020 was \$0.4 million compared to an operating income of \$0.4 million during the first six months of fiscal 2019.
- Net loss during the first six months of fiscal 2020 was \$0.5 million compared to net income of \$0.1 million during the first six months of fiscal 2019.

## Net Sales and Gross Profit Analysis

Net sales by segment and percent change during the second quarter and first six months of fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

<b>Net Sales</b>	<b>Three Months Ended</b>		<b>FY20 vs. FY19</b>
	<b>November 30, 2019</b>	<b>December 1, 2018</b>	<b>% Change</b>
PMT	\$ 29,603	\$ 32,328	-8.4%
Canvys	7,856	6,498	20.9%
Healthcare	2,175	2,488	-12.6%
Total	<u>\$ 39,634</u>	<u>\$ 41,314</u>	-4.1%

  

	<b>Six Months Ended</b>		<b>FY20 vs. FY19</b>
	<b>November 30, 2019</b>	<b>December 1, 2018</b>	<b>% Change</b>
PMT	\$ 60,170	\$ 67,097	-10.3%
Canvys	15,133	13,671	10.7%
Healthcare	4,984	4,703	6.0%
Total	<u>\$ 80,287</u>	<u>\$ 85,471</u>	-6.1%

During the second quarter of fiscal 2020, consolidated net sales decreased 4.1% compared to the second quarter of fiscal 2019. Sales for PMT decreased 8.4%, sales for Canvys increased 20.9% and sales for Healthcare decreased 12.6%. The decrease in PMT was mainly due to economic softness in the power grid tube business and a slow ramp up in sales in the semiconductor wafer fab equipment business, partially offset by growth from our power conversion and RF and microwave components. The increase in Canvys was due to increased customer demand in both its North American and European markets. The decrease in Healthcare was due to lower equipment and parts sales, partially offset by an increase in CT tube sales.

During the first six months of fiscal 2020, consolidated net sales decreased 6.1% compared to the first six months of fiscal 2019. Sales for PMT decreased 10.3%, sales for Canvys increased 10.7% and sales for Healthcare increased 6.0%. The decrease in PMT was mainly due to economic softness in the power grid tube business and a slow ramp up in sales in the semiconductor wafer fab equipment business, partially offset by growth from our power conversion and RF and microwave components. The increase in Canvys was due to increased customer demand in its North American market. The increase in Healthcare was due to higher CT tube and parts sales.

Gross profit by segment and percent of net sales for the second quarter and first six months of fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

<b>Gross Profit</b>	<b>Three Months Ended</b>			
	<b>November 30, 2019</b>	<b>% of Net Sales</b>	<b>December 1, 2018</b>	<b>% of Net Sales</b>
PMT	\$ 9,349	31.6%	\$ 10,107	31.3%
Canvys	2,585	32.9%	2,132	32.8%
Healthcare	746	34.3%	732	29.4%
Total	<u>\$ 12,680</u>	32.0%	<u>\$ 12,971</u>	31.4%

  

	<b>Six Months Ended</b>			
	<b>November 30, 2019</b>	<b>% of Net Sales</b>	<b>December 1, 2018</b>	<b>% of Net Sales</b>
PMT	\$ 19,028	31.6%	\$ 21,114	31.5%
Canvys	4,906	32.4%	4,445	32.5%
Healthcare	1,697	34.0%	1,365	29.0%
Total	<u>\$ 25,631</u>	31.9%	<u>\$ 26,924</u>	31.5%

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

Consolidated gross profit decreased to \$12.7 million during the second quarter of fiscal 2020 compared to \$13.0 million during the second quarter of fiscal 2019. Consolidated gross margin as a percentage of net sales increased to 32.0% during the second quarter of fiscal 2020 from 31.4% during the second quarter of fiscal 2019, primarily due to favorable product mix in Healthcare and improved manufacturing overhead absorption for both PMT and Healthcare.

Consolidated gross profit decreased to \$25.6 million during the first six months of fiscal 2020 compared to \$26.9 million during the first six months of fiscal 2019. Consolidated gross margin as a percentage of net sales increased to 31.9% during the first six months of fiscal 2020 from 31.5% during the first six months of fiscal 2019, primarily due to favorable product mix and manufacturing overhead absorption for Healthcare.

#### ***Power and Microwave Technologies Group***

PMT net sales decreased 8.4% to \$29.6 million during the second quarter of fiscal 2020 from \$32.3 million during the second quarter of fiscal 2019. The decrease was mainly due to economic softness in the power grid tube business and a slow ramp up in sales in the semiconductor wafer fab equipment business, partially offset by growth from our power conversion and RF and microwave components. Gross margin as a percentage of net sales increased to 31.6% during the second quarter of fiscal 2020 as compared to 31.3% during the second quarter of fiscal 2019 primarily due to favorable product mix.

PMT net sales decreased 10.3% to \$60.2 million during the first six months of fiscal 2020 from \$67.1 million during the first six months of fiscal 2019. The decrease was mainly due to economic softness in the power grid tube business and a slow ramp up in sales in the semiconductor wafer fab equipment business, partially offset by growth from our power conversion and RF and microwave components. Gross margin as a percentage of net sales increased slightly to 31.6% during the first six months of fiscal 2020 as compared to 31.5% during the first six months of fiscal 2019.

#### ***Canvys***

Canvys net sales increased 20.9% to \$7.9 million during the second quarter of fiscal 2020 from \$6.5 million during the second quarter of fiscal 2019 due to increased customer demand in both its North American and European markets. Gross margin as a percentage of net sales increased slightly to 32.9% during the second quarter of fiscal 2020 as compared to 32.8% during the second quarter of fiscal 2019.

Canvys net sales increased 10.7% to \$15.1 million during the first six months of fiscal 2020 from \$13.7 million during the first six months of fiscal 2019 primarily due to increased customer demand in its North American market. Gross margin as a percentage of net sales decreased slightly to 32.4% during the first six months of fiscal 2020 as compared to 32.5% during the first six months of fiscal 2019.

#### ***Healthcare***

Healthcare net sales decreased 12.6% to \$2.2 million during the second quarter of fiscal 2020 from \$2.5 million during the second quarter of fiscal 2019 due to lower equipment and parts sales, partially offset by an increase in CT tube sales. Gross margin as a percentage of net sales increased to 34.3% during the second quarter of fiscal 2020 as compared to 29.4% during the second quarter of fiscal 2019 due to favorable product mix and improved manufacturing efficiencies.

Healthcare net sales increased 6.0% to \$5.0 million during the first six months of fiscal 2020 from \$4.7 million during the first six months of fiscal 2019 due to higher CT tube and parts sales. Gross margin as a percentage of net sales increased to 34.0% during the first six months of fiscal 2020 as compared to 29.0% during the first six months of fiscal 2019 due to favorable product mix and improved manufacturing efficiencies.

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

Selling, general and administrative expenses decreased to \$13.2 million during the second quarter of fiscal 2020 from \$13.4 million in the second quarter of fiscal 2019, primarily due to lower severance and legal expenses, partially offset by higher research and development expenses for Healthcare.

Selling, general and administrative expenses decreased to \$26.0 million during the first six months of fiscal 2020 from \$26.5 million in the first six months of fiscal 2019, primarily due to lower severance, legal and IT expenses.

### ***Other Income/Expense***

Other income/expense was expense of \$0.1 million during the second quarter of fiscal 2020, compared to income of \$0.3 million during the second quarter of fiscal 2019. Other income/expense during the second quarter of fiscal 2020 included \$0.1 million of investment/interest income offset by \$0.2 million of foreign exchange losses. Other income/expense during the second quarter of fiscal 2019 included \$0.2 million of foreign exchange gains and \$0.1 million of investment/interest income. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other income/expense was income of \$0.2 million during the first six months of fiscal 2020, compared to income of \$0.2 million during the first six months of fiscal 2019. Other income/expense during the first six months of fiscal 2020 included \$0.2 million of investment/interest income. Other income/expense during the first six months of fiscal 2019 included \$0.1 million of foreign exchange losses offset by \$0.3 million of investment/interest income.

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

We recorded an income tax provision of \$0.3 million and \$0.4 million for the first six months of fiscal 2020 and the first six months of fiscal 2019, respectively. The effective income tax rate during the first six months of fiscal 2020 was a tax provision of (123.6)% as compared to a tax provision of 77.9% during the first six months of fiscal 2019. The difference in rate during the first six months of fiscal 2020 as compared to the first six months of fiscal 2019 reflects changes in our geographical distribution of income (loss). The (123.6)% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss) and the movement of the valuation allowance against our U.S. state and federal net deferred tax assets.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2009 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2012.

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

Net loss during the second quarter of fiscal 2020 was \$0.6 million or (\$0.05) per diluted common share and (\$0.04) per Class B diluted common share as compared to net loss of \$0.3 million during the second quarter of fiscal 2019 or (\$0.02) per diluted common share and (\$0.02) per Class B diluted common share.

Net loss during the first six months of fiscal 2020 was \$0.5 million or (\$0.04) per diluted common share and (\$0.03) per Class B diluted common share as compared to net income of \$0.1 million during the first six months of fiscal 2019 or \$0.01 per diluted common share and \$0.01 per Class B diluted common share.

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

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

Cash and cash equivalents were \$33.1 million at November 30, 2019. Investments included CDs classified as short-term investments of \$13.0 million. Total cash and investments were \$46.1 million at November 30, 2019. Cash, cash equivalents and investments at November 30, 2019 consisted of \$24.9 million in North America, \$11.8 million in Europe, \$1.0 million in Latin America and \$8.4 million in Asia/Pacific. We repatriated \$4.4 million total cash from our entities in Germany and the Netherlands in the second quarter of fiscal 2020. Although the Tax Cuts and Jobs Act generally eliminated federal income tax on future cash repatriation to the United States, cash repatriation may be subject to state and local taxes, withholding or similar taxes. See Note 9 "Income Taxes" of the notes to our consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended June 1, 2019, filed with the SEC on August 5, 2019, for further information.

Cash, cash equivalents and investments were \$50.0 million at June 1, 2019. Cash, cash equivalents and investments at June 1, 2019, consisted of \$21.5 million in North America, \$17.8 million in Europe, \$0.9 million in Latin America and \$9.8 million in Asia/Pacific. We repatriated \$2.3 million total cash from our entities in Japan and Korea in fiscal 2019 and \$5.9 million total cash from our entities in Germany and France in fiscal 2019.

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

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

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



Operating activities used \$1.4 million of cash during the first six months of fiscal 2020. We had a net loss of \$0.5 million during the first six months of fiscal 2020, which included non-cash stock-based compensation expense of \$0.4 million associated with the issuance of stock option and restricted stock awards, \$0.3 million for inventory reserve provisions and depreciation and amortization expense of \$1.7 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in a use of cash of \$3.3 million during the first six months of fiscal 2020, net of foreign currency exchange gains and losses, included an increase in inventory of \$3.4 million, a decrease of \$1.4 million in accounts payable and a decrease in accrued liabilities of \$0.4 million partially offset by a decrease in accounts receivable of \$1.8 million and a decrease of \$0.2 million in prepaid expenses and other assets. The decrease in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services. The majority of the inventory increase was to support the continued growth of our electron tube and RF and Power Technologies groups.

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

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

The cash flow used in investing activities consisted primarily of purchases of investments and capital expenditures partially offset by proceeds from the maturities of investments.

Cash used in investing activities of \$5.8 million during the first six months of fiscal 2020 included purchases of investments of \$13.0 million and \$0.8 million in capital expenditures, partially offset by proceeds from the maturities of investments of \$8.0 million. Capital expenditures related primarily to capital used for our IT system and Healthcare and LaFox manufacturing businesses.

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

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

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

The cash flow used in financing activities consisted primarily of cash dividends paid.

Cash used in financing activities of \$1.6 million during the first six months of fiscal 2020 primarily resulted from cash used to pay dividends.

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

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

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

#### **Risk Management and Market Sensitive Financial Instruments**

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

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended June 1, 2019, filed August 5, 2019.

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

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

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of November 30, 2019.

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 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

On October 15, 2018, Varex Imaging Corporation (“Varex”) filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics Ltd. (“Richardson”) in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson’s ALTA750™ product. Richardson filed an opposition to the preliminary injunction. In January 2019, the Court took evidence on the preliminary injunction issue. On September 30, 2019, the Court soundly denied Varex’s Motion for Preliminary Injunction. Richardson believes the lawsuit to be without merit and a loss is not probable or estimable based on the information at the time the financial statements were issued.

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

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended June 1, 2019, filed August 5, 2019.

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

### **ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS****Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Annex III of the Proxy Statement dated August 22, 2014).</u></a>
3.2	<a href="#"><u>Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2017).</u></a>
31.1	<a href="#"><u>Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32	<a href="#"><u>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101	The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2020, filed with the SEC on January 9, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Comprehensive Loss, (iii) the Unaudited Consolidated Statements of Cash Flows, (iv) the Unaudited Consolidated Statement of Stockholders' Equity and (v) Notes to Unaudited Consolidated Financial Statements.

## **SIGNATURES**

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

RICHARDSON ELECTRONICS, LTD.

Date: January 9, 2020

By: /s/ Robert J. Ben

Robert J. Ben  
Chief Financial Officer and Chief Accounting Officer  
(on behalf of the Registrant and  
as Principal Financial Officer)

CERTIFICATION PURSUANT TO  
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Edward J. Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Richardson Electronics, Ltd. for the period ended November 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2020

Signature: /s/ Edward J. Richardson

Edward J. Richardson  
Chairman of the Board and Chief Executive Officer

CERTIFICATION PURSUANT TO  
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Ben, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Richardson Electronics, Ltd. for the period ended November 30, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2020

Signature: /s/ Robert J. Ben

Robert J. Ben  
Chief Financial Officer and Chief Accounting Officer

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Richardson Electronics, Ltd. (the “Company”) on Form 10-Q for the period ended November 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward J. Richardson, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Edward J. Richardson

Edward J. Richardson

Chairman of the Board and Chief Executive Officer

January 9, 2020

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Richardson Electronics, Ltd. (the “Company”) on Form 10-Q for the period ended November 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert J. Ben, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert J. Ben

Robert J. Ben

Chief Financial Officer and Chief Accounting Officer

January 9, 2020