

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 29, 2020

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 October 6, 2020, there were outstanding 11,110,735 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.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>Part I.</u> | |
| <u>Financial Information</u> | |
| <u>Item 1.</u> | 2 |
| <u>Financial Statements</u> | 2 |
| <u>Consolidated Balance Sheets</u> | 2 |
| <u>Unaudited Consolidated Statements of Comprehensive Income (Loss)</u> | 3 |
| <u>Unaudited Consolidated Statements of Cash Flows</u> | 4 |
| <u>Unaudited Consolidated Statement of Stockholders' Equity</u> | 5 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| <u>Item 2.</u> | 17 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | |
| <u>Item 3.</u> | 21 |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | |
| <u>Item 4.</u> | 22 |
| <u>Controls and Procedures</u> | |
| <u>Part II.</u> | |
| <u>Other Information</u> | |
| <u>Item 1.</u> | 23 |
| <u>Legal Proceedings</u> | |
| <u>Item 1A.</u> | 23 |
| <u>Risk Factors</u> | |
| <u>Item 2.</u> | 23 |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | |
| <u>Item 5.</u> | 23 |
| <u>Other Information</u> | |
| <u>Item 6.</u> | 24 |
| <u>Exhibits</u> | |
| <u>Exhibit Index</u> | 24 |
| <u>Signatures</u> | 25 |

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

| | <u>Unaudited</u> <u>August 29, 2020</u> | <u>Audited</u> <u>May 30, 2020</u> |
|--|--|---------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,495 | \$ 30,535 |
| Accounts receivable, less allowance of \$254 and \$334, respectively | 21,591 | 20,197 |
| Inventories, net | 60,160 | 57,492 |
| Prepaid expenses and other assets | 2,390 | 2,442 |
| Investments - current | 9,000 | 16,000 |
| Total current assets | 126,636 | 126,666 |
| Non-current assets: | | |
| Property, plant and equipment, net | 17,611 | 17,674 |
| Intangible assets, net | 2,450 | 2,505 |
| Lease ROU asset | 3,151 | 3,419 |
| Non-current deferred income taxes | 468 | 456 |
| Total non-current assets | 23,680 | 24,054 |
| Total assets | \$ 150,316 | \$ 150,720 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 14,809 | \$ 17,372 |
| Accrued liabilities | 12,302 | 10,324 |
| Lease liability current | 1,423 | 1,485 |
| Total current liabilities | 28,534 | 29,181 |
| Non-current liabilities: | | |
| Non-current deferred income tax liabilities | 170 | 161 |
| Lease liability non-current | 1,701 | 1,941 |
| Other non-current liabilities | 841 | 777 |
| Total non-current liabilities | 2,712 | 2,879 |
| Total liabilities | 31,246 | 32,060 |
| Stockholders' equity | | |
| Common stock, \$0.05 par value; issued and outstanding 11,111 shares at August 29, 2020 and 11,038 shares at May 30, 2020 | 556 | 552 |
| Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,097 shares at August 29, 2020 and May 30, 2020 | 105 | 105 |
| Preferred stock, \$1.00 par value, no shares issued | — | — |
| Additional paid-in-capital | 61,946 | 61,749 |
| Retained earnings | 52,837 | 54,764 |
| Accumulated other comprehensive income | 3,626 | 1,490 |
| Total stockholders' equity | 119,070 | 118,660 |
| Total liabilities and stockholders' equity | \$ 150,316 | \$ 150,720 |

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

| | Three Months Ended | |
|--|---------------------------|------------------------|
| | August 29, 2020 | August 31, 2019 |
| Statements of Comprehensive Income (Loss) | | |
| Net sales | \$ 38,812 | \$ 40,653 |
| Cost of sales | 26,453 | 27,702 |
| Gross profit | 12,359 | 12,951 |
| Selling, general and administrative expenses | 12,976 | 12,847 |
| Loss on disposal of assets | — | 1 |
| Operating (loss) income | (617) | 103 |
| Other expense (income): | | |
| Investment/interest income | (18) | (120) |
| Foreign exchange loss (income) | 442 | (110) |
| Other, net | (18) | (1) |
| Total other expense (income) | 406 | (231) |
| (Loss) income before income taxes | (1,023) | 334 |
| Income tax provision | 124 | 177 |
| Net (loss) income | (1,147) | 157 |
| Foreign currency translation gain (loss), net of tax | 2,136 | (716) |
| Comprehensive income (loss) | \$ 989 | \$ (559) |
| Net (loss) income per share | | |
| Common shares - Basic | \$ (0.09) | \$ 0.01 |
| Class B common shares - Basic | \$ (0.08) | \$ 0.01 |
| Common shares - Diluted | \$ (0.09) | \$ 0.01 |
| Class B common shares - Diluted | \$ (0.08) | \$ 0.01 |
| Weighted average number of shares: | | |
| Common shares – Basic | 11,070 | 10,990 |
| Class B common shares – Basic | 2,097 | 2,097 |
| Common shares – Diluted | 11,070 | 10,990 |
| Class B common shares – Diluted | 2,097 | 2,097 |
| Dividends per common share | \$ 0.060 | \$ 0.060 |
| Dividends per Class B common share | \$ 0.054 | \$ 0.054 |

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

| | Three Months Ended | |
|--|---------------------------|------------------------|
| | August 29, 2020 | August 31, 2019 |
| Operating activities: | | |
| Net (loss) income | \$ (1,147) | \$ 157 |
| Adjustments to reconcile net (loss) income to cash used in operating activities: | | |
| Depreciation and amortization | 873 | 833 |
| Inventory provisions | 237 | 161 |
| Loss on disposal of assets | — | 1 |
| Share-based compensation expense | 201 | 188 |
| Deferred income taxes | 2 | (48) |
| Change in assets and liabilities: | | |
| Accounts receivable | (854) | 2,161 |
| Inventories | (1,621) | (1,357) |
| Prepaid expenses and other assets | 109 | 625 |
| Accounts payable | (2,734) | (3,955) |
| Accrued liabilities | 1,779 | (876) |
| Other | (202) | 56 |
| Net cash used in operating activities | (3,357) | (2,054) |
| Investing activities: | | |
| Capital expenditures | (718) | (339) |
| Proceeds from maturity of investments | 16,000 | 8,000 |
| Purchases of investments | (9,000) | — |
| Net cash provided by investing activities | 6,282 | 7,661 |
| Financing activities: | | |
| Cash dividends paid | (780) | (775) |
| Payment of financing lease principal | (45) | (30) |
| Other | — | 4 |
| Net cash used in financing activities | (825) | (801) |
| Effect of exchange rate changes on cash and cash equivalents | 860 | (368) |
| Increase in cash and cash equivalents | 2,960 | 4,438 |
| Cash and cash equivalents at beginning of period | 30,535 | 42,019 |
| Cash and cash equivalents at end of period | \$ 33,495 | \$ 46,457 |

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 | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|------------------------------------|---------------|-------------------|---------------|----------------------------------|----------------------|---|-------------------|
| Balance May 30, 2020: | 11,038 | 2,097 | \$ 657 | \$ 61,749 | \$ 54,764 | \$ 1,490 | \$ 118,660 |
| Comprehensive income (loss) | | | | | | | |
| Net loss | — | — | — | — | (1,147) | — | (1,147) |
| Foreign currency translation | — | — | — | — | — | 2,136 | 2,136 |
| Share-based compensation: | | | | | | | |
| Restricted stock | — | — | — | 131 | — | — | 131 |
| Stock options | — | — | — | 70 | — | — | 70 |
| Common stock: | | | | | | | |
| Restricted stock issuance | 73 | — | 4 | (4) | — | — | — |
| Dividends paid to: | | | | | | | |
| Common (\$0.060 per share) | — | — | — | — | (667) | — | (667) |
| Class B (\$0.054 per share) | — | — | — | — | (113) | — | (113) |
| Balance August 29, 2020: | <u>11,111</u> | <u>2,097</u> | <u>\$ 661</u> | <u>\$ 61,946</u> | <u>\$ 52,837</u> | <u>\$ 3,626</u> | <u>\$ 119,070</u> |

| | Common | Class B Common | Par Value | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|------------------------------------|---------------|-------------------|---------------|----------------------------------|----------------------|---|-------------------|
| Balance June 1, 2019: | 10,957 | 2,097 | \$ 652 | \$ 61,012 | \$ 59,703 | \$ 2,390 | \$ 123,757 |
| Comprehensive (loss) income | | | | | | | |
| Net income | — | — | — | — | 157 | — | 157 |
| Foreign currency translation | — | — | — | — | — | (716) | (716) |
| Share-based compensation: | | | | | | | |
| Restricted stock | — | — | — | 99 | — | — | 99 |
| Stock options | — | — | — | 89 | — | — | 89 |
| Common stock: | | | | | | | |
| Restricted stock issuance | 72 | — | 4 | — | — | — | 4 |
| Dividends paid to: | | | | | | | |
| Common (\$0.060 per share) | — | — | — | — | (662) | — | (662) |
| Class B (\$0.054 per share) | — | — | — | — | (113) | — | (113) |
| Balance August 31, 2019: | <u>11,029</u> | <u>2,097</u> | <u>\$ 656</u> | <u>\$ 61,200</u> | <u>\$ 59,085</u> | <u>\$ 1,674</u> | <u>\$ 122,615</u> |

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 disruptive RF, Wireless and Power technologies. As a designer, 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-One computers, specialized cabinet finishes, 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, repairs, refurbishes and distributes high value replacement parts and equipment 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; pre-owned CT systems; 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 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 first three months of fiscal 2021 and fiscal 2020 both contained 13 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 months ended August 29, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending May 29, 2021.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the year ended May 30, 2020, that we filed on August 3, 2020.

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 \$53.3 million of finished goods, \$4.0 million of raw materials and \$2.9 million of work-in-progress as of August 29, 2020, as compared to approximately \$51.8 million of finished goods, \$3.6 million of raw materials and \$2.1 million of work-in-progress as of May 30, 2020.

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 \$5.6 million as of August 29, 2020 and \$5.4 million as of May 30, 2020.

Revenue Recognition: 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 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.

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.

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 consisted of the following (in thousands):

| | August 29, 2020 | | May 30, 2020 | |
|--------------------------------|-----------------|---------------|--------------|---------------|
| Compensation and payroll taxes | \$ | 4,645 | \$ | 3,469 |
| Accrued severance | | 650 | | 650 |
| Professional fees | | 853 | | 471 |
| Deferred revenue | | 1,875 | | 1,671 |
| Other accrued expenses | | 4,279 | | 4,063 |
| Accrued Liabilities | \$ | 12,302 | \$ | 10,324 |

4. REVENUE RECOGNITION

The Company 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*):

| | <u>May 30, 2020</u> | <u>Additions</u> | <u>Revenue Recognized</u> | <u>August 29, 2020</u> |
|---|---------------------|------------------|---------------------------|------------------------|
| Contract liabilities (deferred revenue) | \$ 1,671 | \$ 799 | \$ (595) | \$ 1,875 |

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, the Company 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. As there is not a material impact on our financial statements, we will continue to account for customer discounts when they are taken by the customer and address further if they grow.

Recognize revenue when the entity satisfies a performance obligation

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

Additional considerations

Sale with right of return:

Our return policy is available to customers in our terms and conditions found on our website www.rell.com. The policy varies by 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 the related product sale. 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. 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. The Company 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*):

| | August 29, 2020 | May 30, 2020 |
|---------------------------------------|-----------------|-----------------|
| Gross Amounts: | | |
| Trade Name | \$ 659 | \$ 659 |
| Customer Relationships ⁽¹⁾ | 3,408 | 3,388 |
| Non-compete Agreements | 177 | 177 |
| Technology | 230 | 230 |
| Total Gross Amounts | \$ 4,474 | \$ 4,454 |
| Accumulated Amortization: | | |
| Trade Name | \$ 659 | \$ 659 |
| Customer Relationships | 1,069 | 1,000 |
| Non-compete Agreements | 177 | 176 |
| Technology | 119 | 114 |
| Total Accumulated Amortization | \$ 2,024 | \$ 1,949 |
| Net Intangible Assets | \$ 2,450 | \$ 2,505 |

(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 2021 | \$ 185 |
| 2022 | 252 |
| 2023 | 246 |
| 2024 | 232 |
| 2025 | 219 |
| Thereafter | 1,316 |
| Total amortization expense | \$ 2,450 |

The weighted average number of years of amortization expense remaining is 13.4 years.

6. INVESTMENTS

As of August 29, 2020, we had \$9.0 million invested in a CD which matures in less than twelve months. The fair value of the investment was equal to the face value of the CD.

As of May 30, 2020, we had \$16.0 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 income (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 \$0.5 million as of August 29, 2020 and \$0.5 million as of May 30, 2020.

8. LEASE OBLIGATIONS AND OTHER COMMITMENTS

The Company leases real and personal property in the normal course of business under various operating leases and financing leases. The Company has two types of operating leases: leases for facility space and leases for automobiles. Most of the leased facility space is for sales and general office use. Automobile leases are used throughout the Company. The financing lease is for our computer servers.

The gross amounts of assets and liabilities related to both operating and financing leases at August 29, 2020 and May 30, 2020 were as follows (*in thousands*):

| Lease Type | August 29, 2020 | May 30, 2020 |
|---------------------------------------|-----------------|-----------------|
| Operating lease ROU asset | \$ 2,773 | \$ 3,018 |
| Financing lease ROU asset | 378 | 401 |
| Total Lease ROU asset | <u>\$ 3,151</u> | <u>\$ 3,419</u> |
| Operating lease liability current | \$ 1,265 | \$ 1,329 |
| Financing lease liability current | 158 | 156 |
| Total lease liability current | <u>\$ 1,423</u> | <u>\$ 1,485</u> |
| Operating lease liability non-current | \$ 1,582 | \$ 1,778 |
| Financing lease liability non-current | 119 | 163 |
| Total lease liability non-current | <u>\$ 1,701</u> | <u>\$ 1,941</u> |

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

| | | Three Months Ended | |
|---|--------------------|--------------------|-----------------|
| | | August 29, 2020 | August 31, 2019 |
| Consolidated operating lease expense | Operating expenses | \$ 488 | \$ 478 |
| Consolidated financing lease amortization | Operating expenses | 23 | — |
| Consolidated financing lease interest | Interest expense | 4 | 9 |
| Consolidated financing lease expense | | 27 | 9 |
| Net lease cost | | <u>\$ 515</u> | <u>\$ 487</u> |

The approximate future minimum lease payments under operating and financing leases at August 29, 2020 were as follows (*in thousands*):

| Fiscal Year | Operating Leases | Financing Leases | Total |
|----------------------------|------------------|------------------|-----------------|
| Remaining 2021 | \$ 1,098 | \$ 136 | \$ 1,234 |
| 2022 | 751 | 151 | 902 |
| 2023 | 511 | — | 511 |
| 2024 | 360 | — | 360 |
| 2025 | 221 | — | 221 |
| Thereafter | 124 | — | 124 |
| Total lease payments | 3,065 | 287 | 3,352 |
| Less imputed interest | 218 | 10 | 228 |
| Net minimum lease payments | <u>\$ 2,847</u> | <u>\$ 277</u> | <u>\$ 3,124</u> |

The weighted average remaining lease terms and interest rates of leases held by the Company as of August 29, 2020 were as follows:

| Lease Type | Weighted Average Remaining Lease Term in Years | Weighted Average Interest Rate |
|------------------|--|--------------------------------|
| Operating leases | 3.3 | 4.6% |
| Financing leases | 1.6 | 4.6% |

The cash outflows of the leasing activity of the Company as lessee for the three months ending August 29, 2020 were as follows (*in thousands*):

| Cash Flow Source | Classification | Amount |
|--|----------------------|--------|
| Operating cash flows from operating leases | Operating activities | \$ 261 |
| Operating cash flows from financing leases | Operating activities | 42 |
| Finance cash flows from financing leases | Financing activities | 45 |

9. INCOME TAXES

We recorded an income tax provision of \$0.1 million and \$0.2 million for the first three months of fiscal 2021 and the first three months of fiscal 2020, respectively. The effective income tax rate during the first three months of fiscal 2021 was a tax provision of (12.1)% as compared to a tax provision of 53.0% during the first three months of fiscal 2020. The difference in rate during the first three months of fiscal 2021 as compared to the first three months of fiscal 2020 reflects changes in our geographical distribution of income (loss). The (12.1)% 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 2015 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2018.

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. The deferred tax liability on the outside basis difference is now primarily withholding tax on future dividend distributions. We have provided a deferred tax liability of less than \$0.1 million as of both August 29, 2020 and as of May 30, 2020.

As of August 29, 2020 and as of May 30, 2020, our worldwide liability for uncertain tax positions related to continuing operations was \$0.1 million, excluding interest and penalties. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the consolidated statements of comprehensive income (loss).

The valuation allowance against the net deferred tax assets that will more likely than not be realized was \$12.7 million as of August 29, 2020. The valuation allowance against the net deferred tax assets was \$12.3 million as of May 30, 2020 as no material additional domestic federal and state net deferred tax assets were generated during the first quarter of fiscal 2021 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 income (loss) were based on the following amounts (*in thousands, except per share amounts*):

| | Three Months Ended | | | |
|--|---------------------------|-------------------|------------------------|-----------------|
| | August 29, 2020 | | August 31, 2019 | |
| | Basic | Diluted | Basic | Diluted |
| <i>Numerator for Basic and Diluted EPS:</i> | | | | |
| Net (loss) income | \$ (1,147) | \$ (1,147) | \$ 157 | \$ 157 |
| Less dividends: | | | | |
| Common stock | 667 | 667 | 662 | 662 |
| Class B common stock | 113 | 113 | 113 | 113 |
| Undistributed losses | <u>\$ (1,927)</u> | <u>\$ (1,927)</u> | <u>\$ (618)</u> | <u>\$ (618)</u> |
| Common stock undistributed losses | <u>\$ (1,646)</u> | <u>\$ (1,646)</u> | <u>\$ (527)</u> | <u>\$ (527)</u> |
| Class B common stock undistributed losses | <u>(281)</u> | <u>(281)</u> | <u>(91)</u> | <u>(91)</u> |
| Total undistributed losses | <u>\$ (1,927)</u> | <u>\$ (1,927)</u> | <u>\$ (618)</u> | <u>\$ (618)</u> |
| <i>Denominator for Basic and Diluted EPS:</i> | | | | |
| Common stock weighted average shares | <u>11,070</u> | 11,070 | <u>10,990</u> | 10,990 |
| 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>13,167</u> | | <u>13,087</u> |
| Net (loss) income per share: | | | | |
| Common stock | <u>\$ (0.09)</u> | <u>\$ (0.09)</u> | <u>\$ 0.01</u> | <u>\$ 0.01</u> |
| Class B common stock | <u>\$ (0.08)</u> | <u>\$ (0.08)</u> | <u>\$ 0.01</u> | <u>\$ 0.01</u> |

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first quarter of fiscal 2021 and fiscal 2020 were 1,593 and 1,502, respectively.

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 disruptive RF, Wireless and Power technologies. As a designer, 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-One computers, specialized cabinet finishes, 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, repairs, refurbishes and distributes high value replacement parts and equipment 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; pre-owned CT systems; 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 help our customers improve efficiency and deliver better clinical outcomes while lowering the cost of healthcare delivery.

The CEO, who is the chief operating decision maker, 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 | |
|--------------------------|--------------------|-----------------|
| | August 29, 2020 | August 31, 2019 |
| <u>PMT</u> | | |
| Net Sales | \$ 30,252 | \$ 30,567 |
| Gross Profit | 9,971 | 9,679 |
| <u>Canvys</u> | | |
| Net Sales | \$ 6,712 | \$ 7,277 |
| Gross Profit | 2,284 | 2,321 |
| <u>Healthcare</u> | | |
| Net Sales | \$ 1,848 | \$ 2,809 |
| Gross Profit | 104 | 951 |

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 | |
|----------------------------|--------------------|------------------|
| | August 29, 2020 | August 31, 2019 |
| <u>Net Sales</u> | | |
| North America | \$ 16,129 | \$ 17,234 |
| Asia/Pacific | 10,035 | 8,523 |
| Europe | 10,687 | 12,924 |
| Latin America | 1,927 | 1,978 |
| Other (1) | 34 | (6) |
| Total | <u>\$ 38,812</u> | <u>\$ 40,653</u> |
| <u>Gross Profit</u> | | |
| North America | \$ 6,017 | \$ 6,307 |
| Asia/Pacific | 3,078 | 2,593 |
| Europe | 3,356 | 4,131 |
| Latin America | 662 | 700 |
| Other (1) | (754) | (780) |
| Total | <u>\$ 12,359</u> | <u>\$ 12,951</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. RISKS AND UNCERTAINTIES

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 denied Varex's Motion for Preliminary Injunction. On August 6, 2020, Varex amended its Complaint to add claims of trade secret misappropriation and Richardson moved to dismiss that Amended Complaint on September 9, 2020. 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.

Company Response to COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally.

In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in global exposure. Thereafter, most U.S. states imposed "shelter in place" directives on their populations to stem the spread of COVID-19. Of specific interest to the Company, shelter in place directives were imposed in the states of Illinois, Massachusetts and South Carolina.

The shelter in place directives generally required the closure of businesses that did not provide essential functions. The Company was considered a critical supplier of products to healthcare and critical infrastructure businesses. Several of our largest customers mandated that we continue to supply parts so as not to disrupt the supply chain and their ability to serve critical industries. As such, the Company qualified as an "Essential Business". Essential Businesses were allowed to continue to operate during shelter in place directives. We continued our manufacturing and distribution operations even when a shelter in place directive was issued. We limited the number of people in any one of our facilities by requiring only employees who could not perform their work remotely to physically work in a Company US-based facility. The Company advised all other employees that could perform their job functions remotely to do so. As such, the Company's operations remained operational.

The impact of the COVID-19 outbreak continues to evolve. As such, the full magnitude that the pandemic will have on the Company's financial condition, liquidity and future results of operations is uncertain. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce. As the spread of COVID-19 continues, our ability to meet customer demands for products may be impaired or, similarly, our customers may experience adverse business consequences due to COVID-19. Reduced demand for products or impaired ability to meet customer demand (including disruptions at our transportation service providers or vendors) could have a material adverse effect on our business, operations and financial performance. Some of the decline in the first three months of fiscal 2021 PMT and Canvys sales and the decrease in Healthcare sales was primarily due to the COVID-19 global pandemic. While we had some COVID-19 related component delays impacting new product development schedules, we did not experience a major interruption in our supply chain. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not presently able to estimate the effects of COVID-19 on its results of operations, financial condition or liquidity for fiscal year 2021.

Company Response to CARES Act

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to provide certain relief as a result of the COVID-19 outbreak. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of employer-side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. As of August 29, 2020, the Company deferred \$0.5 million of employer-side social security tax payments. The Company has estimated and recorded the overall effects of the CARES Act and does not anticipate a material change.

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, an entity is required to develop its own assumptions.

As of August 29, 2020, we held an investment that was required to be measured at fair value on a recurring basis. Our investment consisted of a CD 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 August 29, 2020 and May 30, 2020 were as follows (*in thousands*):

| | Level 1 |
|-------------------------------|------------------|
| <u>August 29, 2020</u> | |
| CD | \$ 9,000 |
| Total | \$ 9,000 |
| <u>May 30, 2020</u> | |
| CDs | \$ 16,000 |
| Total | \$ 16,000 |

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 has been extended as detailed in Exhibit 10.2, filed with our Annual Report on Form 10-K for the year ended May 30, 2020, filed August 3, 2020. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.7 million. Rental expense related to this lease amounted to less than \$0.1 million for the three months ended August 29, 2020 and for the three months ended August 31, 2019.

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 this quarterly report on Form 10Q for the quarter ended August 29, 2020 as well as our Annual Report on Form 10-K filed on August 3, 2020. 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 month periods ended August 29, 2020 and August 31, 2019, as reflected in our consolidated statements of comprehensive income (loss).
- **Liquidity, Financial Position and Capital Resources** – a discussion of our primary sources and uses of cash for the three month periods ended August 29, 2020 and August 31, 2019, 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 disruptive RF, Wireless and Power technologies. As a designer, 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-One computers, specialized cabinet finishes, 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, repairs, refurbishes and distributes high value replacement parts and equipment 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; pre-owned CT systems; 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 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 August 29, 2020

- The first three months of fiscal 2021 and fiscal 2020 each contained 13 weeks.
- Net sales during the first quarter of fiscal 2021 were \$38.8 million, a decrease of 4.5%, compared to net sales of \$40.7 million during the first quarter of fiscal 2020.
- Gross margin decreased slightly to 31.8% during the first quarter of fiscal 2021 compared to 31.9% during the first quarter of fiscal 2020.
- Selling, general and administrative expenses were \$13.0 million, or 33.4% of net sales, during the first quarter of fiscal 2021 compared to \$12.8 million, or 31.6% of net sales, during the first quarter of fiscal 2020.
- Operating loss during the first quarter of fiscal 2021 was \$0.6 million compared to operating income of \$0.1 million during the first quarter of fiscal 2020.
- Net loss during the first quarter of fiscal 2021 was \$1.1 million compared to net income of \$0.2 million during the first quarter of fiscal 2020.

Net Sales and Gross Profit Analysis

Net sales by segment and percent change during the first quarter of fiscal 2021 and fiscal 2020 were as follows (*in thousands*):

| <u>Net Sales</u> | <u>Three Months Ended</u> | | <u>FY21 vs. FY20 % Change</u> |
|------------------|---------------------------|------------------------|-----------------------------------|
| | <u>August 29, 2020</u> | <u>August 31, 2019</u> | |
| PMT | \$ 30,252 | \$ 30,567 | -1.0% |
| Canvys | 6,712 | 7,277 | -7.8% |
| Healthcare | 1,848 | 2,809 | -34.2% |
| Total | <u>\$ 38,812</u> | <u>\$ 40,653</u> | -4.5% |

During the first quarter of fiscal 2021, consolidated net sales decreased 4.5% compared to the first quarter of fiscal 2020. Sales for PMT decreased 1.0%, sales for Canvys decreased 7.8% and sales for Healthcare decreased 34.2%. The decrease in PMT was mainly due to economic softness in the power grid tube business and the effect of the coronavirus, partially offset by strong growth from our Power and Microwave new technology partners in various applications including 5G infrastructure, and increased year-over-year revenue from our Semiconductor Wafer Fabrication customers buying engineered solutions. The decrease in Canvys was due to continuing struggles in the European market partially offset by strong sales in the North American market. The decrease in Healthcare was due to the impact of the coronavirus global pandemic as well as ongoing economic issues in Latin America.

Gross profit by segment and percent of net sales for the first quarter of fiscal 2021 and fiscal 2020 were as follows (*in thousands*):

| Gross Profit | Three Months Ended | | | |
|---------------------|---------------------------|-----------------------|------------------------|-----------------------|
| | August 29, 2020 | % of Net Sales | August 31, 2019 | % of Net Sales |
| PMT | \$ 9,971 | 33.0% | \$ 9,679 | 31.7% |
| Canvys | 2,284 | 34.0% | 2,321 | 31.9% |
| Healthcare | 104 | 5.6% | 951 | 33.9% |
| Total | <u>\$ 12,359</u> | 31.8% | <u>\$ 12,951</u> | 31.9% |

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 \$12.4 million during the first quarter of fiscal 2021 compared to \$13.0 million during the first quarter of fiscal 2020. Consolidated gross margin as a percentage of net sales decreased slightly to 31.8% during the first quarter of fiscal 2021 from 31.9% during the first quarter of fiscal 2020, primarily due to under absorbed manufacturing expenses in Healthcare partially offset by favorable product mix in both PMT and Canvys and improved manufacturing efficiencies in PMT.

Power and Microwave Technologies Group

PMT net sales decreased 1.0% to \$30.3 million during the first quarter of fiscal 2021 from \$30.6 million during the first quarter of fiscal 2020. The decrease was mainly due to economic softness in the power grid tube business and the effect of the coronavirus, partially offset by strong growth from our Power and Microwave new technology partners in various applications including 5G infrastructure, and increased year-over-year revenue from our Semiconductor Wafer Fabrication customers buying engineered solutions. Gross margin as a percentage of net sales increased to 33.0% during the first quarter of fiscal 2021 as compared to 31.7% during the first quarter of fiscal 2020 primarily due to favorable product mix and improved manufacturing efficiencies.

Canvys

Canvys net sales decreased 7.8% to \$6.7 million during the first quarter of fiscal 2021 from \$7.3 million during the first quarter of fiscal 2020 due to continuing struggles in the European market partially offset by strong sales in the North American market. Gross margin as a percentage of net sales increased to 34.0% during the first quarter of fiscal 2021 from 31.9% during the first quarter of fiscal 2020 due to favorable product mix.

Healthcare

Healthcare net sales decreased 34.2% to \$1.8 million during the first quarter of fiscal 2021 from \$2.8 million during the first quarter of fiscal 2020. The decrease in sales was primarily due to the impact of the global pandemic as well as ongoing economic issues in Latin America. Gross margin as a percentage of net sales decreased to 5.6% during the first quarter of fiscal 2021 as compared to 33.9% during the first quarter of fiscal 2020 primarily due to under absorbed manufacturing expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$13.0 million during the first quarter of fiscal 2021 from \$12.8 million in the first quarter of fiscal 2020, primarily due to higher employee compensation expenses and higher legal expenses, partially offset by lower travel expenses.

Other Income/Expense

Other income/expense was expense of \$0.4 million during the first quarter of fiscal 2021, compared to income of \$0.2 million during the first quarter of fiscal 2020. Other income/expense during the first quarter of fiscal 2021 included \$0.4 million of foreign exchange losses. Other income/expense during the first quarter of fiscal 2020 included \$0.1 million of investment/interest income and \$0.1 million of foreign exchange gains. 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.

Income Tax Provision

We recorded an income tax provision of \$0.1 million and \$0.2 million for the first three months of fiscal 2021 and the first three months of fiscal 2020, respectively. The effective income tax rate during the first three months of fiscal 2021 was a tax provision of (12.1)% as compared to a tax provision of 53.0% during the first three months of fiscal 2020. The difference in rate during the first three months of fiscal 2021 as compared to the first three months of fiscal 2020 reflects changes in our geographical distribution of income (loss). The (12.1)% 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 2015 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We are currently under examination in Thailand (fiscal 2008 through 2011). Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2015 and the Netherlands beginning in fiscal 2018.

Net (Loss) Income and Per Share Data

Net loss during the first quarter of fiscal 2021 was \$1.1 million or (\$0.09) per diluted common share and (\$0.08) per Class B diluted common share as compared to net income of \$0.2 million during the first quarter of fiscal 2020 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 \$33.5 million at August 29, 2020. Investments included a CD classified as short-term investment of \$9.0 million. Total cash and investments were \$42.5 million at August 29, 2020. Cash, cash equivalents and investment at August 29, 2020 consisted of \$28.3 million in North America, \$7.2 million in Europe, \$0.9 million in Latin America and \$6.1 million in Asia/Pacific.

Cash, cash equivalents and investments were \$46.5 million at May 30, 2020. Cash, cash equivalents and investments at May 30, 2020, consisted of \$30.6 million in North America, \$8.3 million in Europe, \$0.9 million in Latin America and \$6.7 million in Asia/Pacific. We repatriated a total of \$8.5 million to the United States in fiscal 2020 from several of our foreign entities. This amount includes \$4.4 million from our entities in Germany and the Netherlands in the second quarter of fiscal 2020, \$1.5 million from our entity in Japan in the third quarter of fiscal 2020 and \$1.0 million from our entity in Italy in the fourth 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 May 30, 2020, filed August 3, 2020 for further information.

The Company continues to monitor the impact of the COVID-19 outbreak on its supply chain, manufacturing and distribution operations, customers and employees, as well as the U.S. economy in general. However, due to the uncertainty as to when governmental restrictions on business will be fully lifted, the impact thereof, and the duration and widespread nature of the COVID-19 outbreak, the Company cannot currently predict the long-term impact on its operations and financial results. The uncertainties associated with the COVID-19 outbreak include potential adverse effects on the overall economy, the Company's supply chain, transportation services, employees and customers. The COVID-19 outbreak could adversely affect the Company's revenues, earnings, liquidity and cash flows and may require significant actions in response, including expense reductions. Conditions surrounding COVID-19 change rapidly and additional impacts of which the Company is not currently aware may arise. Based on past performance and current expectations, 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 adjusted for non-cash items and changes in our operating assets and liabilities.

Operating activities used \$3.4 million of cash during the first three months of fiscal 2021. We had a net loss of \$1.1 million during the first three months of fiscal 2021, which included non-cash stock-based compensation expense of \$0.2 million associated with the issuance of stock option and restricted stock awards, \$0.2 million for inventory reserve provisions and depreciation and amortization expense of \$0.9 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 \$3.5 million during the first three months of fiscal 2021, net of foreign currency exchange gains and losses, included a decrease of \$2.7 million in accounts payable, an increase in inventory of \$1.6 million and an increase in accounts receivable of \$0.9 million, partially offset by an increase in accrued liabilities of \$1.8 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 majority of the inventory increase was to support the electron tube and semi-conductor wafer fab equipment business. The increase in accounts receivable was primarily due to the sales increase compared to the fourth quarter of fiscal 2020. The increase in accrued liabilities is mainly due to timing of employee compensation and payroll tax payments.

Operating activities used \$2.1 million of cash during the first three months of fiscal 2020. We had net income of \$0.2 million during the first three months of fiscal 2020, which included non-cash stock-based compensation expense of \$0.2 million associated with the issuance of stock option and restricted stock awards, \$0.2 million for inventory reserve provisions and depreciation and amortization expense of \$0.8 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 three months of fiscal 2020, net of foreign currency exchange gains and losses, included a decrease of \$4.0 million in accounts payable, an increase in inventory of \$1.4 million, a decrease in accrued liabilities of \$0.9 million partially offset by a decrease in accounts receivable of \$2.2 million and a decrease of \$0.6 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 RF and Power Technologies group.

Cash Flows from Investing Activities

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

Cash provided by investing activities of \$6.3 million during the first three months of fiscal 2021 included proceeds from the maturities of investments of \$16.0 million, partially offset by purchases of investments of \$9.0 million and \$0.7 million in capital expenditures. Capital expenditures related primarily to capital used for our Healthcare business and our IT system.

Cash provided by investing activities of \$7.7 million during the first three months of fiscal 2020 included proceeds from the maturities of investments of \$8.0 million partially offset by \$0.3 million in capital expenditures. Capital expenditures related primarily to capital used for our IT system and LaFox manufacturing business.

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 \$0.8 million during the first three months of fiscal 2021 primarily resulted from cash used to pay dividends.

Cash used in financing activities of \$0.8 million during the first three months of fiscal 2020 resulted from cash used to pay dividends.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management and Market Sensitive Financial Instruments

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

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended May 30, 2020, filed August 3, 2020.

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 August 29, 2020.

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 first quarter of fiscal 2021 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 denied Varex’s Motion for Preliminary Injunction. On August 6, 2020, Varex amended its Complaint to add claims of trade secret misappropriation and Richardson moved to dismiss that Amended Complaint on September 9, 2020. 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 May 30, 2020, filed August 3, 2020.

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

ITEM 5. OTHER INFORMATION

Submission of Matters to a Vote of Security Holders

We held our annual meeting of stockholders on October 6, 2020. At the annual meeting, our stockholders (i) elected each of the nominees listed below to the Company's Board of Directors to serve for a term expiring at the 2021 Annual Meeting; (ii) ratified the selection of BDO USA, LLP as our independent registered public accounting firm for fiscal year 2021; (iii) approved, on an advisory basis, the compensation of the Company's named executive officers, and (iv) approved an amendment and restatement of the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan.

The final results for the votes regarding each proposal are set forth below.

1. The voting results with respect to the election of each director were as follows:

| Nominee | For | Abstain/Withhold | Broker Non-Votes |
|----------------------|------------|------------------|------------------|
| Edward J. Richardson | 26,610,120 | 1,296,994 | 2,328,841 |
| Jacques Belin | 26,613,566 | 1,293,548 | 2,328,841 |
| James Benham | 26,612,359 | 1,294,755 | 2,328,841 |
| Kenneth Halverson | 26,613,568 | 1,293,546 | 2,328,841 |
| Robert H. Kluge | 26,620,983 | 1,286,131 | 2,328,841 |
| Paul J. Plante | 26,164,944 | 1,742,170 | 2,328,841 |

2. The voting results with respect to the ratification of the selection of BDO USA, LLP as our independent registered public accounting firm for fiscal year 2021 was approved with 30,191,566 votes “FOR”, 37,475 votes “AGAINST” and 6,914 votes “ABSTAIN/WITHHOLD”.
3. The voting results with respect to the approval, on an advisory basis, the compensation of our Named Executive Officers was approved with 25,640,188 votes “FOR”, 2,070,522 votes “AGAINST”, 196,404 votes “ABSTAIN/WITHHOLD” and 2,328,841 broker non-votes.
4. The voting results with respect to the approval of an amendment and restatement of the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan was approved with 26,387,222 votes “FOR”, 1,467,647 votes “AGAINST”, 52,245 votes “ABSTAIN/WITHHOLD” and 2,328,841 broker non-votes.

ITEM 6. EXHIBITS**Exhibit Index**

| Exhibit Number | Description |
|-----------------------|--|
| 3.1 | <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> |
| 3.2 | <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> |
| 10.1 | <u>Amendment, dated June 4, 2020, to the Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015 (incorporated by reference to the Company's Current Report on Form 10-K, filed with the Securities and Exchange Commission on August 3, 2020).</u> |
| 10.2 † | <u>Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan (incorporated by reference to Annex A of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on August 24, 2020).</u> |
| 31.1 | <u>Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2 | <u>Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32 | <u>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the first quarter of fiscal 2021, filed with the SEC on October 8, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Comprehensive Income (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. |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |
| | † Executive Compensation Plan or Agreement |

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: October 8, 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 August 29, 2020;
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: October 8, 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 August 29, 2020;
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: October 8, 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 August 29, 2020, 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
October 8, 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 August 29, 2020, 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
October 8, 2020