

**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 February 27, 2021

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 April 6, 2021, 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Unaudited	Audited
	February 27, 2021	May 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 38,407	\$ 30,535
Accounts receivable, less allowance of \$270 and \$334, respectively	21,880	20,197
Inventories, net	59,425	57,492
Prepaid expenses and other assets	2,334	2,442
Investments - current	9,000	16,000
Total current assets	131,046	126,666
Non-current assets:		
Property, plant and equipment, net	17,098	17,674
Intangible assets, net	2,330	2,505
Lease ROU asset	2,971	3,419
Non-current deferred income taxes	522	456
Total non-current assets	22,921	24,054
Total assets	\$ 153,967	\$ 150,720
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 15,572	\$ 17,372
Accrued liabilities	14,846	10,324
Lease liability current	1,239	1,485
Total current liabilities	31,657	29,181
Non-current liabilities:		
Non-current deferred income tax liabilities	173	161
Lease liability non-current	1,629	1,941
Other non-current liabilities	923	777
Total non-current liabilities	2,725	2,879
Total liabilities	34,382	32,060
Stockholders' equity		
Common stock, \$0.05 par value; issued and outstanding 11,111 shares on February 27, 2021 and 11,038 shares on May 30, 2020	556	552
Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,097 shares on February 27, 2021 and May 30, 2020	105	105
Preferred stock, \$1.00 par value, no shares issued	—	—
Additional paid-in-capital	62,274	61,749
Retained earnings	52,194	54,764
Accumulated other comprehensive income	4,456	1,490
Total stockholders' equity	119,585	118,660
Total liabilities and stockholders' equity	\$ 153,967	\$ 150,720

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

	Three Months Ended		Nine Months Ended	
	February 27, 2021	February 29, 2020	February 27, 2021	February 29, 2020
Statements of Comprehensive Income (Loss)				
Net sales	\$ 45,235	\$ 38,249	\$ 126,465	\$ 118,536
Cost of sales	29,469	25,579	83,997	80,235
Gross profit	15,766	12,670	42,468	38,301
Selling, general and administrative expenses	15,457	12,659	41,924	38,667
(Gain) loss on disposal of assets	(6)	—	(6)	1
Operating income (loss)	315	11	550	(367)
Other expense (income):				
Investment/interest income	(15)	(97)	(48)	(340)
Foreign exchange loss	65	28	650	117
Other, net	(25)	(8)	(61)	(24)
Total other expense (income)	25	(77)	541	(247)
Income (loss) before income taxes	290	88	9	(120)
Income tax provision	62	181	239	438
Net income (loss)	228	(93)	(230)	(558)
Foreign currency translation gain (loss), net of tax	353	(60)	2,966	(554)
Comprehensive income (loss)	\$ 581	\$ (153)	\$ 2,736	\$ (1,112)
Net income (loss) per share				
Common shares - Basic	\$ 0.02	\$ (0.01)	\$ (0.02)	\$ (0.04)
Class B common shares - Basic	\$ 0.02	\$ (0.01)	\$ (0.02)	\$ (0.04)
Common shares - Diluted	\$ 0.02	\$ (0.01)	\$ (0.02)	\$ (0.04)
Class B common shares - Diluted	\$ 0.02	\$ (0.01)	\$ (0.02)	\$ (0.04)
Weighted average number of shares:				
Common shares – Basic	11,111	11,038	11,097	11,022
Class B common shares – Basic	2,097	2,097	2,097	2,097
Common shares – Diluted	11,183	11,038	11,097	11,022
Class B common shares – Diluted	2,097	2,097	2,097	2,097
Dividends per common share	\$ 0.060	\$ 0.060	\$ 0.180	\$ 0.180
Dividends per Class B common share	\$ 0.054	\$ 0.054	\$ 0.162	\$ 0.162

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

	Three Months Ended		Nine Months Ended	
	February 27, 2021	February 29, 2020	February 27, 2021	February 29, 2020
Operating activities:				
Net income (loss)	\$ 228	\$ (93)	\$ (230)	\$ (558)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization	849	856	2,595	2,514
Inventory provisions	265	221	717	502
(Gain) loss on disposal of assets	(6)	—	(6)	1
Share-based compensation expense	150	157	529	527
Deferred income taxes	3	76	(50)	51
Change in assets and liabilities:				
Accounts receivable	(837)	(760)	(1,004)	1,066
Inventories	133	(754)	(875)	(4,173)
Prepaid expenses and other assets	428	(56)	156	146
Accounts payable	496	(726)	(2,027)	(2,091)
Accrued liabilities	873	152	4,285	(238)
Other	216	2	(222)	(107)
Net cash provided by (used in) operating activities	2,798	(925)	3,868	(2,360)
Investing activities:				
Capital expenditures	(555)	(430)	(1,835)	(1,244)
Proceeds from maturity of investments	—	—	16,000	8,000
Purchases of investments	—	—	(9,000)	(13,000)
Net cash (used in) provided by investing activities	(555)	(430)	5,165	(6,244)
Financing activities:				
Proceeds from issuance of common stock	—	—	—	59
Cash dividends paid	(780)	(776)	(2,340)	(2,326)
Payment of financing lease principal	(45)	(46)	(136)	(121)
Net cash used in financing activities	(825)	(822)	(2,476)	(2,388)
Effect of exchange rate changes on cash and cash equivalents	(34)	(2)	1,315	(152)
Increase (decrease) in cash and cash equivalents	1,384	(2,179)	7,872	(11,144)
Cash and cash equivalents at beginning of period	37,023	33,054	30,535	42,019
Cash and cash equivalents at end of period	\$ 38,407	\$ 30,875	\$ 38,407	\$ 30,875

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							
Net loss	—	—	—	—	(230)	—	(230)
Foreign currency translation	—	—	—	—	—	2,966	2,966
Share-based compensation:							
Restricted stock	—	—	—	371	—	—	371
Stock options	—	—	—	158	—	—	158
Common stock:							
Restricted stock issuance	73	—	4	(4)	—	—	—
Dividends paid to:							
Common (\$0.180 per share)	—	—	—	—	(2,000)	—	(2,000)
Class B (\$0.162 per share)	—	—	—	—	(340)	—	(340)
Balance February 27, 2021:	<u>11,111</u>	<u>2,097</u>	<u>\$ 661</u>	<u>\$ 62,274</u>	<u>\$ 52,194</u>	<u>\$ 4,456</u>	<u>\$ 119,585</u>
Balance November 28, 2020:	11,111	2,097	\$ 661	\$ 62,124	\$ 52,746	\$ 4,103	\$ 119,634
Comprehensive income							
Net income	—	—	—	—	228	—	228
Foreign currency translation	—	—	—	—	—	353	353
Share-based compensation:							
Restricted stock	—	—	—	112	—	—	112
Stock options	—	—	—	38	—	—	38
Dividends paid to:							
Common (\$0.060 per share)	—	—	—	—	(667)	—	(667)
Class B (\$0.054 per share)	—	—	—	—	(113)	—	(113)
Balance February 27, 2021:	<u>11,111</u>	<u>2,097</u>	<u>\$ 661</u>	<u>\$ 62,274</u>	<u>\$ 52,194</u>	<u>\$ 4,456</u>	<u>\$ 119,585</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							
Net loss	—	—	—	—	(558)	—	(558)
Foreign currency translation	—	—	—	—	—	(554)	(554)
Share-based compensation:							
Restricted stock	—	—	—	335	—	—	335
Stock options	—	—	—	192	—	—	192
Common stock:							
Options exercised	10	—	1	58	—	—	59
Restricted stock issuance	71	—	4	(4)	—	—	—
Dividends paid to:							
Common (\$0.180 per share)	—	—	—	—	(1,986)	—	(1,986)
Class B (\$0.162 per share)	—	—	—	—	(340)	—	(340)
Balance February 29, 2020:	<u>11,038</u>	<u>2,097</u>	<u>\$ 657</u>	<u>\$ 61,593</u>	<u>\$ 56,819</u>	<u>\$ 1,836</u>	<u>\$ 120,905</u>
Balance November 30, 2019:	11,038	2,097	\$ 657	\$ 61,436	\$ 57,688	\$ 1,896	\$ 121,677
Comprehensive (loss) income							
Net loss	—	—	—	—	(93)	—	(93)
Foreign currency translation	—	—	—	—	—	(60)	(60)
Share-based compensation:							
Restricted stock	—	—	—	121	—	—	121
Stock options	—	—	—	36	—	—	36
Common stock:							
Options exercised	—	—	—	—	—	—	—
Restricted stock issuance	—	—	—	—	—	—	—
Dividends paid to:							
Common (\$0.060 per share)	—	—	—	—	(662)	—	(662)
Class B (\$0.054 per share)	—	—	—	—	(114)	—	(114)
Balance February 29, 2020:	<u>11,038</u>	<u>2,097</u>	<u>\$ 657</u>	<u>\$ 61,593</u>	<u>\$ 56,819</u>	<u>\$ 1,836</u>	<u>\$ 120,905</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 third quarter of fiscal 2021 and fiscal 2020 both contained 13 weeks. The first nine months of fiscal 2021 and fiscal 2020 both contained 39 weeks.

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the three and nine months ended February 27, 2021 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 \$53.4 million of finished goods, \$3.2 million of raw materials and \$2.8 million of work-in-progress as of February 27, 2021, 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 \$5.9 million as of February 27, 2021 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 are either 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. 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 discounts taken and estimated 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):

	February 27, 2021	May 30, 2020
Compensation and payroll taxes	\$ 5,137	\$ 3,469
Accrued severance	664	650
Professional fees	565	471
Deferred revenue	2,743	1,671
Legal settlement	1,600	—
Other accrued expenses	4,137	4,063
Accrued Liabilities	\$ 14,846	\$ 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. 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*):

	May 30, 2020	Additions	Revenue Recognized	February 27, 2021
Contract liabilities (deferred revenue)	\$ 1,671	\$ 3,038	\$ (1,966)	\$ 2,743

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 reserve. 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.

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*):

	February 27, 2021	May 30, 2020
Gross Amounts:		
Trade Name	\$ 659	\$ 659
Customer Relationships ⁽¹⁾	3,420	3,388
Non-compete Agreements	177	177
Technology	230	230
Total Gross Amounts	<u>\$ 4,486</u>	<u>\$ 4,454</u>
Accumulated Amortization:		
Trade Name	\$ 659	\$ 659
Customer Relationships	1,189	1,000
Non-compete Agreements	177	176
Technology	131	114
Total Accumulated Amortization	<u>\$ 2,156</u>	<u>\$ 1,949</u>
Net Intangible Assets	<u>\$ 2,330</u>	<u>\$ 2,505</u>

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

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

Fiscal Year	Amortization Expense
Remaining 2021	\$ 62
2022	253
2023	246
2024	232
2025	220
Thereafter	1,317
Total amortization expense	<u>\$ 2,330</u>

The weighted average number of years of amortization expense remaining is 13 years.

6. INVESTMENTS

As of February 27, 2021, 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 February 27, 2021 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 were as follows (*in thousands*):

Lease Type	February 27, 2021	May 30, 2020
Operating lease ROU asset	\$ 2,640	\$ 3,018
Financing lease ROU asset	331	401
Total Lease ROU asset	<u>\$ 2,971</u>	<u>\$ 3,419</u>
Operating lease liability current	\$ 1,078	\$ 1,329
Financing lease liability current	161	156
Total lease liability current	<u>\$ 1,239</u>	<u>\$ 1,485</u>
Operating lease liability non-current	\$ 1,599	\$ 1,778
Financing lease liability non-current	30	163
Total lease liability non-current	<u>\$ 1,629</u>	<u>\$ 1,941</u>

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

		Three Months Ended	
		February 27, 2021	February 29, 2020
Consolidated operating lease expense	Operating expenses	\$ 484	\$ 481
Consolidated financing lease amortization	Operating expenses	23	23
Consolidated financing lease interest	Interest expense	2	4
Consolidated financing lease expense		25	27
Net lease cost		<u>\$ 509</u>	<u>\$ 508</u>

		Nine Months Ended	
		February 27, 2021	February 29, 2020
Consolidated operating lease expense	Operating expenses	\$ 1,474	\$ 1,427
Consolidated financing lease amortization	Operating expenses	69	39
Consolidated financing lease interest	Interest expense	9	18
Consolidated financing lease expense		78	57
Net lease cost		<u>\$ 1,552</u>	<u>\$ 1,484</u>

The approximate future minimum lease payments under operating and financing leases at February 27, 2021 were as follows (*in thousands*):

Fiscal Year	Operating Leases	Financing Leases	Total
Remaining 2021	\$ 386	\$ 45	\$ 431
2022	973	151	1,124
2023	691	—	691
2024	454	—	454
2025	230	—	230
Thereafter	126	—	126
Total lease payments	2,860	196	3,056
Less imputed interest	183	5	188
Net minimum lease payments	<u>\$ 2,677</u>	<u>\$ 191</u>	<u>\$ 2,868</u>

The weighted average remaining lease terms and interest rates of leases held by the Company as of February 27, 2021 were as follows:

Lease Type	Weighted Average Remaining Lease Term in Years	Weighted Average Interest Rate
Operating leases	2.8	4.6%
Financing leases	1.1	4.6%

The cash outflows of the leasing activity of the Company as lessee for the nine months ending February 27, 2021 were as follows (*in thousands*):

Cash Flow Source	Classification	Amount
Operating cash flows from operating leases	Operating activities	\$ 430
Operating cash flows from financing leases	Operating activities	127
Finance cash flows from financing leases	Financing activities	136

9. INCOME TAXES

We recorded an income tax provision of \$0.2 million and \$0.4 million for the first nine months of fiscal 2021 and the first nine months of fiscal 2020, respectively. The income tax provision reflected a provision for foreign income taxes, which was lower than in the prior year's first nine months, and no U.S. tax benefit due to the valuation allowance recorded against the net operating loss.

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 February 27, 2021 and as of May 30, 2020.

As of February 27, 2021 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 \$12.4 million as of February 27, 2021. 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 nine months 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			
	February 27, 2021		February 29, 2020	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
Net income (loss)	\$ 228	\$ 228	\$ (93)	\$ (93)
Less dividends:				
Common stock	667	667	662	662
Class B common stock	113	113	114	114
Undistributed losses	\$ (552)	\$ (552)	\$ (869)	\$ (869)
Common stock undistributed losses	\$ (472)	\$ (472)	\$ (742)	\$ (742)
Class B common stock undistributed losses	(80)	(80)	(127)	(127)
Total undistributed losses	\$ (552)	\$ (552)	\$ (869)	\$ (869)
<i>Denominator for Basic and Diluted EPS:</i>				
Common stock weighted average shares	11,111	11,111	11,038	11,038
Class B common stock weighted average shares and shares under if-converted method for diluted EPS	2,097	2,097	2,097	2,097
Effect of dilutive securities				
Dilutive stock options		72		—
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		13,280		13,135
Net income (loss) per share:				
Common stock	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.01)
Class B common stock	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.01)

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the third quarter of fiscal 2020 were 1,000.

	Nine Months Ended			
	February 27, 2021		February 29, 2020	
	Basic	Diluted	Basic	Diluted
<i>Numerator for Basic and Diluted EPS:</i>				
Net loss	\$ (230)	\$ (230)	\$ (558)	\$ (558)
Less dividends:				
Common stock	2,000	2,000	1,986	1,986
Class B common stock	340	340	340	340
Undistributed losses	\$ (2,570)	\$ (2,570)	\$ (2,884)	\$ (2,884)
Common stock undistributed losses	\$ (2,196)	\$ (2,196)	\$ (2,462)	\$ (2,462)
Class B common stock undistributed losses	(374)	(374)	(422)	(422)
Total undistributed losses	<u>\$ (2,570)</u>	<u>\$ (2,570)</u>	<u>\$ (2,884)</u>	<u>\$ (2,884)</u>
<i>Denominator for Basic and Diluted EPS:</i>				
Common stock weighted average shares	<u>11,097</u>	11,097	<u>11,022</u>	11,022
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>13,194</u>		<u>13,119</u>
Net income (loss) per share:				
Common stock	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Class B common stock	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first nine months of fiscal 2021 and fiscal 2020 were 1,300 and 943, 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		Nine Months Ended	
	February 27, 2021	February 29, 2020	February 27, 2021	February 29, 2020
<u>PMT</u>				
Net Sales	\$ 35,237	\$ 28,988	\$ 98,418	\$ 89,158
Gross Profit	12,308	9,519	33,530	28,547
<u>Canvys</u>				
Net Sales	\$ 7,078	\$ 7,200	\$ 20,491	\$ 22,333
Gross Profit	2,493	2,362	7,156	7,268
<u>Healthcare</u>				
Net Sales	\$ 2,920	\$ 2,061	\$ 7,556	\$ 7,045
Gross Profit	965	789	1,782	2,486

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		Nine Months Ended	
	February 27, 2021	February 29, 2020	February 27, 2021	February 29, 2020
<u>Net Sales</u>				
North America	\$ 19,654	\$ 15,935	\$ 53,513	\$ 48,475
Asia/Pacific	9,821	6,812	28,970	24,612
Europe	13,285	12,438	37,277	38,572
Latin America	2,446	3,057	6,591	6,894
Other (1)	29	7	114	(17)
Total	<u>\$ 45,235</u>	<u>\$ 38,249</u>	<u>\$ 126,465</u>	<u>\$ 118,536</u>
<u>Gross Profit</u>				
North America	\$ 8,081	\$ 6,552	\$ 21,099	\$ 18,656
Asia/Pacific	3,517	2,261	9,592	7,910
Europe	4,356	4,011	12,153	12,157
Latin America	896	994	2,345	2,338
Other (1)	(1,084)	(1,148)	(2,721)	(2,760)
Total	<u>\$ 15,766</u>	<u>\$ 12,670</u>	<u>\$ 42,468</u>	<u>\$ 38,301</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. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter, which is recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

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. There was a decline in PMT sales during the first three months of fiscal 2021, a decline in Healthcare sales during the first six months of fiscal 2021 and a decline in Canvys sales during the first nine months of fiscal 2021. The majority of these declines in sales were related 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 fully 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 February 27, 2021, the Company deferred \$0.9 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 February 27, 2021, 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 February 27, 2021 and May 30, 2020 were as follows (*in thousands*):

	Level 1
<u>February 27, 2021</u>	
CD	\$ 9,000
Total	<u>\$ 9,000</u>
<u>May 30, 2020</u>	
CDs	\$ 16,000
Total	<u>\$ 16,000</u>

14. RELATED PARTY TRANSACTION

On June 15, 2015, the Company entered into a lease agreement for the IMES facility with LDL, LLC. The Executive Vice President of IMES, Lee A. McIntyre III (former owner of IMES), has an ownership interest in LDL, LLC. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.7 million. Rental expense related to this lease amounted to \$0.1 million for the nine months ended February 27, 2021 and for the nine months ended February 29, 2020.

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 February 27, 2021, 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 and nine month periods ended February 27, 2021 and February 29, 2020, 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 nine month periods ended February 27, 2021 and February 29, 2020, 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 thyatrons, 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 February 27, 2021

- The third quarter of fiscal 2021 and fiscal 2020 each contained 13 weeks.
- Net sales during the third quarter of fiscal 2021 were \$45.2 million, an increase of 18.3%, compared to net sales of \$38.2 million during the third quarter of fiscal 2020.
- Gross margin increased to 34.9% during the third quarter of fiscal 2021 compared to 33.1% during the third quarter of fiscal 2020.
- Selling, general and administrative expenses were \$15.5 million, including the \$1.6 million settlement, or 34.2% of net sales, during the third quarter of fiscal 2021 compared to \$12.7 million, or 33.1% of net sales, during the third quarter of fiscal 2020.
- Operating income during the third quarter of fiscal 2021 was \$0.3 million compared to operating income of \$11,000 during the third quarter of fiscal 2020.
- Net income during the third quarter of fiscal 2021 was \$0.2 million compared to net loss of \$0.1 million during the third quarter of fiscal 2020.

Financial Summary – Nine Months Ended February 27, 2021

- The first nine months of fiscal 2021 and fiscal 2020 each contained 39 weeks.
- Net sales during the first nine months of fiscal 2021 were \$126.5 million, an increase of 6.7%, compared to net sales of \$118.5 million during the first nine months of fiscal 2020.
- Gross margin increased to 33.6% during the first nine months of fiscal 2021 compared to 32.3% during the first nine months of fiscal 2020.
- Selling, general and administrative expenses were \$41.9 million, including the \$1.6 million settlement, or 33.2% of net sales, during the first nine months of fiscal 2021 compared to \$38.7 million, or 32.6% of net sales, during the first nine months of fiscal 2020.
- Operating income during the first nine months of fiscal 2021 was \$0.6 million compared to operating loss of \$0.4 million during the first nine months of fiscal 2020.
- Net loss during the first nine months of fiscal 2021 was \$0.2 million compared to net loss of \$0.6 million during the first nine months of fiscal 2020.

Net Sales and Gross Profit Analysis

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

Net Sales	Three Months Ended		FY21 vs. FY20 % Change
	February 27, 2021	February 29, 2020	
PMT	\$ 35,237	\$ 28,988	21.6%
Canvys	7,078	7,200	-1.7%
Healthcare	2,920	2,061	41.7%
Total	<u>\$ 45,235</u>	<u>\$ 38,249</u>	18.3%

	Nine Months Ended		FY21 vs. FY20 % Change
	February 27, 2021	February 29, 2020	
PMT	\$ 98,418	\$ 89,158	10.4%
Canvys	20,491	22,333	-8.2%
Healthcare	7,556	7,045	7.3%
Total	<u>\$ 126,465</u>	<u>\$ 118,536</u>	6.7%

During the third quarter of fiscal 2021, consolidated net sales increased 18.3% compared to the third quarter of fiscal 2020. Sales for PMT increased 21.6%, sales for Canvys decreased 1.7% and sales for Healthcare increased 41.7%. The increase in PMT was mainly due to strong growth from our Power and Microwave new technology partners in various applications including Power Management and 5G infrastructure and increased revenue from our Semiconductor Wafer Fabrication customers buying engineered solutions. We also had growth in various Electron Device product lines. The decrease in Canvys was primarily due to continuing struggles in the European market related to the COVID-19 impact on demand for equipment partially offset by strong sales in the North American market. The increase in Healthcare was primarily due to a significant increase in demand for the ALTA 750D™ tubes coupled with increased equipment sales in Latin America.

During the first nine months of fiscal 2021, consolidated net sales increased 6.7% compared to the first nine months of fiscal 2020. Sales for PMT increased 10.4%, sales for Canvys decreased 8.2% and sales for Healthcare increased 7.3%. The increase in PMT was mainly due to strong growth in bookings and billings from our Power Management and RF and microwave components with continued growth in the Semiconductor Wafer Fab market. We also had growth in various Electron Device product lines. The decrease in Canvys was primarily due to continuing struggles in the European market related to the COVID-19 impact on demand for equipment partially offset by strong sales in the North American market. The increase in Healthcare was due to an increase in demand for the ALTA 750D™ tubes.

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

Gross Profit	Three Months Ended			
	February 27, 2021	% of Net Sales	February 29, 2020	% of Net Sales
PMT	\$ 12,308	34.9%	\$ 9,519	32.8%
Canvys	2,493	35.2%	2,362	32.8%
Healthcare	965	33.0%	789	38.3%
Total	<u>\$ 15,766</u>	34.9%	<u>\$ 12,670</u>	33.1%

	Nine Months Ended			
	February 27, 2021	% of Net Sales	February 29, 2020	% of Net Sales
PMT	\$ 33,530	34.1%	\$ 28,547	32.0%
Canvys	7,156	34.9%	7,268	32.5%
Healthcare	1,782	23.6%	2,486	35.3%
Total	<u>\$ 42,468</u>	33.6%	<u>\$ 38,301</u>	32.3%

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 increased to \$15.8 million during the third quarter of fiscal 2021 compared to \$12.7 million during the third quarter of fiscal 2020. Consolidated gross margin as a percentage of net sales increased to 34.9% during the third quarter of fiscal 2021 from 33.1% during the third quarter of fiscal 2020, primarily due to favorable product mix in both PMT and Canvys, partially offset by product mix in Healthcare.

Consolidated gross profit increased to \$42.5 million during the first nine months of fiscal 2021 compared to \$38.3 million during the first nine months of fiscal 2020. Consolidated gross margin as a percentage of net sales increased to 33.6% during the first nine months of fiscal 2021 from 32.3% during the first nine months of fiscal 2020, primarily due to improved manufacturing efficiencies in PMT and favorable product mix in both PMT and Canvys. These increases were partially offset by under absorbed manufacturing expenses in Healthcare during the first half of fiscal 2021.

Power and Microwave Technologies Group

PMT net sales increased 21.6% to \$35.2 million during the third quarter of fiscal 2021 from \$29.0 million during the third quarter of fiscal 2020. The increase was mainly due to strong growth from our Power and Microwave new technology partners in various applications including Power Management and 5G infrastructure and increased revenue from our Semiconductor Wafer Fabrication customers buying engineered solutions. We also had growth in various Electron Device product lines. Gross margin as a percentage of net sales increased to 34.9% during the third quarter of fiscal 2021 as compared to 32.8% during the third quarter of fiscal 2020 primarily due to favorable product mix.

PMT net sales increased 10.4% to \$98.4 million during the first nine months of fiscal 2021 from \$89.2 million during the first nine months of fiscal 2020. The increase was mainly due to strong growth in bookings and billings from our Power Management and RF and microwave components with continued growth in the Semiconductor Wafer Fab market. We also had growth in various Electron Device product lines. Gross margin as a percentage of net sales increased to 34.1% during the first nine months of fiscal 2021 as compared to 32.0% during the first nine months of fiscal 2020 due to favorable product mix and improved manufacturing efficiencies.

Canvys

Canvys net sales decreased 1.7% to \$7.1 million during the third quarter of fiscal 2021 from \$7.2 million during the third quarter of fiscal 2020 primarily due to continuing struggles in the European market related to the COVID-19 impact on demand for equipment partially offset by strong sales in the North American market. Gross margin as a percentage of net sales increased to 35.2% during the third quarter of fiscal 2021 from 32.8% during the third quarter of fiscal 2020 due to favorable product mix.

Canvys net sales decreased 8.2% to \$20.5 million during the first nine months of fiscal 2021 from \$22.3 million during the first nine months of fiscal 2020 primarily due to continuing struggles in the European market related to the COVID-19 impact on demand for equipment partially offset by strong sales in the North American market. Gross margin as a percentage of net sales increased to 34.9% during the first nine months of fiscal 2021 as compared to 32.5% during the first nine months of fiscal 2020 due to favorable product mix and foreign currency change impact.

Healthcare

Healthcare net sales increased 41.7% to \$2.9 million during the third quarter of fiscal 2021 from \$2.1 million during the third quarter of fiscal 2020. The increase in sales was primarily due to a significant increase in demand for the ALTA 750D™ tubes coupled with increased equipment sales in Latin America. Gross margin as a percentage of net sales decreased to 33.0% during the third quarter of fiscal 2021 as compared to 38.3% during the third quarter of fiscal 2020 primarily due to product mix.

Healthcare net sales increased 7.3% to \$7.6 million during the first nine months of fiscal 2021 from \$7.0 million during the first nine months of fiscal 2020 due to an increase in demand for the ALTA 750D™ tubes. Gross margin as a percentage of net sales decreased to 23.6% during the first nine months of fiscal 2021 as compared to 35.3% during the first nine months of fiscal 2020 due to under absorbed manufacturing expenses in the first half of fiscal 2021.

Legal Settlement

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. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter, which is recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$15.5 million during the third quarter of fiscal 2021 from \$12.7 million in the third quarter of fiscal 2020. This increase included the \$1.6 million legal settlement. The increase also resulted from higher employee compensation expense and legal fees, partially offset by lower travel expenses.

Selling, general and administrative expenses increased to \$41.9 million during the first nine months of fiscal 2021 from \$38.7 million in the first nine months of fiscal 2020. This increase included the \$1.6 million legal settlement. The remainder of the increase was primarily due to higher employee compensation expense and legal fees, partially offset by lower travel and consulting expenses.

Other Income/Expense

Other income/expense was expense of less than \$0.1 million during the third quarter of fiscal 2021, compared to income of \$0.1 million during the third quarter of fiscal 2020. Other income/expense during the third quarter of fiscal 2020 included \$0.1 million of investment/interest income. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other income/expense was expense of \$0.5 million during the first nine months of fiscal 2021, compared to income of \$0.2 million during the first nine months of fiscal 2020. Other income/expense during the first nine months of fiscal 2021 included \$0.6 million of foreign exchange losses partially offset by less than \$0.1 million of investment/interest income. Other income/expense during the first nine months of fiscal 2020 included \$0.3 million of investment/interest income partially offset by \$0.1 million of foreign exchange losses.

Income Tax Provision

The income tax provision was \$0.1 million for the third quarter of fiscal 2021 as compared to \$0.2 million for the third quarter of fiscal 2020. The income tax provision reflected a provision for foreign income taxes, which was lower than in the prior year's third quarter, and the offset of a U.S. tax provision against the valuation allowance.

We recorded an income tax provision of \$0.2 million and \$0.4 million for the first nine months of fiscal 2021 and the first nine months of fiscal 2020, respectively. The income tax provision reflected a provision for foreign income taxes, which was lower than in the prior year's first nine months, and no U.S. tax benefit due to the valuation allowance recorded against the net operating loss.

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 Income (Loss) and Per Share Data

Net income during the third quarter of fiscal 2021 was \$0.2 million, or \$0.02 per diluted common share and \$0.02 per Class B diluted common share as compared to net loss of \$0.1 million during the third quarter of fiscal 2020 or (\$0.01) per diluted common share and (\$0.01) per Class B diluted common share.

Net loss during the first nine months of fiscal 2021 was \$0.2 million or (\$0.02) per diluted common share and (\$0.02) per Class B diluted common share as compared to net loss of \$0.6 million during the first nine months of fiscal 2020 or (\$0.04) per diluted common share and (\$0.04) 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 \$38.4 million at February 27, 2021. Investments included a CD classified as short-term investment of \$9.0 million. Total cash and investments were \$47.4 million at February 27, 2021. Cash, cash equivalents and investments at February 27, 2021 consisted of \$30.5 million in North America, \$8.3 million in Europe, \$1.0 million in Latin America and \$7.6 million in Asia/Pacific. We repatriated a total of \$0.7 million to the United States in the third quarter of fiscal 2021, which included \$0.5 million from our entity in Korea and \$0.2 million from our entity in Italy. 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.

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.

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

Operating activities provided \$3.9 million of cash during the first nine months of fiscal 2021. We had a net loss of \$0.2 million during the first nine months of fiscal 2021, which included non-cash stock-based compensation expense of \$0.5 million associated with the issuance of stock option and restricted stock awards, \$0.7 million for inventory reserve provisions and depreciation and amortization expense of \$2.6 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in cash provided of \$0.3 million during the first nine months of fiscal 2021, net of foreign currency exchange gains and losses, included an increase in accrued liabilities of \$4.3 million, partially offset by a decrease of \$2.0 million in accounts payable, an increase in accounts receivable of \$1.0 million and an increase in inventory of \$0.9 million. The increase in accrued liabilities was mainly due to a legal settlement and timing of employee compensation and payroll tax payments as well as the timing of other payments. The decrease in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services. The increase in accounts receivable was primarily due to the sales increase in fiscal 2021. The majority of the inventory increase was to support the electron tube and RF and microwave components business.

Operating activities used \$2.4 million of cash during the first nine months of fiscal 2020. We had a net loss of \$0.6 million during the first nine months of fiscal 2020, which included non-cash stock-based compensation expense of \$0.5 million associated with the issuance of stock option and restricted stock awards, \$0.5 million for inventory reserve provisions and depreciation and amortization expense of \$2.5 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in a use of cash of \$5.4 million during the first nine months of fiscal 2020, net of foreign currency exchange gains and losses, included an increase in inventory of \$4.2 million, a decrease of \$2.1 million in accounts payable and a decrease in accrued liabilities of \$0.2 million partially offset by a decrease in accounts receivable of \$1.1 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 continued growth of our electron tube and RF and Power Technologies groups.

Cash Flows from Investing Activities

The cash flow provided by (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 \$5.2 million during the first nine 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 \$1.8 million in capital expenditures. Capital expenditures related primarily to capital used for our Healthcare business and our IT system.

Cash used in investing activities of \$6.2 million during the first nine months of fiscal 2020 included purchases of investments of \$13.0 million and \$1.2 million in capital expenditures, partially offset by proceeds from the maturities of investments of \$8.0 million. Capital expenditures related primarily to capital used for our IT system, Healthcare and LaFox manufacturing businesses.

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 \$2.5 million during the first nine months of fiscal 2021 primarily resulted from cash used to pay dividends.

Cash used in financing activities of \$2.4 million during the first nine months of fiscal 2020 primarily 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 February 27, 2021.

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 third 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. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter which is recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

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

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>
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 third quarter of fiscal 2021, filed with the SEC on April 8, 2021, 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)

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: April 8, 2021

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 February 27, 2021;
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: April 8, 2021

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 February 27, 2021;
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: April 8, 2021

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 February 27, 2021, 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
April 8, 2021

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 February 27, 2021, 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
April 8, 2021