RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
April 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 27, 2010

OR

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

For the transition period from ______ To ______

Commission File Number: 0-12906

RICHARDSON ELECTRONICS, LTD.

(Exact name of registrant as specified in its charter)

Delaware	**36-2096643**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

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

(Address of principal executive offices)

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

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	x

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

As of April 5, 2010, there were outstanding 14,592,837 shares of Common Stock, $0.05 par value and 3,048,258 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.

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except per share amounts)

	February 27, 2010	May 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 51,561	$ 43,887
Accounts receivable, less allowance of $1,908 and $2,396	93,121	92,449
Inventories	79,526	81,165
Prepaid expenses	6,639	5,245
Deferred income taxes	2,459	2,591
Total current assets	233,306	225,337
Non-current assets:		
Property, plant and equipment, net	16,992	19,371
Other intangible assets, net	154	432
Non-current deferred income taxes	3,445	3,385
Other non-current assets	325	290
Total non-current assets	20,916	23,478
Total assets	$ 254,222	$ 248,815
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 60,001	$ 52,996
Accrued liabilities	18,689	18,371
Total current liabilities	78,690	71,367
Non-current liabilities:		
Long-term debt	43,833	52,353
Long-term income tax liabilities	3,474	5,016
Other non-current liabilities	1,550	1,386
Total non-current liabilities	48,857	58,755
Total liabilities	127,547	130,122
Commitments and contingencies		

Stockholders equity		
Common stock, $0.05 par value; issued 15,946 shares at February 27, 2010, and 15,930 shares at May 30, 2009	798	797
Class B common stock, convertible, $0.05 par value; issued 3,048 shares at February 27, 2010, and at May 30, 2009	152	152
Preferred stock, $1.00 par value, no shares issued		
Additional paid-in-capital	120,273	120,370
Common stock in treasury, at cost, 1,354 shares at February 27, 2010, and 1,065 shares at May 30, 2009	(8,492)	(6,310)
Retained earnings (accumulated deficit)	6,695	(2,475)
Accumulated other comprehensive income	7,249	6,159
Total stockholders equity	126,675	118,693
Total liabilities and stockholders equity	$ 254,222	$ 248,815

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Richardson Electronics, Ltd.

Unaudited Condensed Consolidated Statements of Operations

and Comprehensive Income (Loss)

(in thousands, except per share amounts)

Statements of Operations	**Three Months Ended February 27, 2010**	**Three Months Ended February 28, 2009**	**Nine Months Ended February 27, 2010**	**Nine Months Ended February 28, 2009**
Net sales	$ 121,330	$ 110,316	$ 346,756	$ 381,814
Cost of sales	91,922	86,590	261,838	292,191
Gross profit	29,408	23,726	84,918	89,623
Selling, general, and administrative expenses	23,720	27,686	70,336	84,089
Loss on disposal of assets	9	5,778	7	5,856
Operating income (loss)	5,679	(9,738)	14,575	(322)
Other (income) expense:				
Interest expense	983	1,130	3,227	3,489
Investment (income) loss	(19)	33	(79)	(337)
Foreign exchange (gain) loss	(208)	(153)	1,310	(2,636)
(Gain) loss on retirement of long-term debt	127		127	(849)
Other, net	2	74	(96)	(92)
Total other (income) expense	885	1,084	4,489	(425)
Income (loss) from continuing operations before income taxes	4,794	(10,822)	10,086	103
Income tax provision (benefit)	326	563	(604)	1,861
Income (loss) from continuing operations	4,468	(11,385)	10,690	(1,758)
Loss from discontinued operations			1,173	
Net income (loss)	$ 4,468	$ (11,385)	$ 9,517	$ (1,758)
Net income (loss) per common share basic:				
Income (loss) from continuing operations	$ 0.26	$ (0.65)	$ 0.61	$ (0.10)
Loss from discontinued operations			(0.07)	
Net income (loss) per common share - basic	$ 0.26	$ (0.65)	$ 0.54	$ (0.10)
Net income (loss) per Class B common share basic:				
Income (loss) from continuing operations	$ 0.23	$ (0.58)	$ 0.55	$ (0.09)
Loss from discontinued operations			(0.06)	
Net income (loss) per Class B common share - basic	$ 0.23	$ (0.58)	$ 0.49	$ (0.09)
Net income (loss) per common share diluted:				
Income (loss) from continuing operations	$ 0.25	$ (0.65)	$ 0.60	$ (0.10)
Loss from discontinued operations			(0.07)	

Net income (loss) per common share diluted	$	0.25	$	(0.65)	$	0.53	$	(0.10)
Net income (loss) per Class B common share diluted:								
Income (loss) from continuing operations	$	0.23	$	(0.58)	$	0.55	$	(0.09)
Loss from discontinued operations						(0.06)		
Net income (loss) per Class B common share diluted	$	0.23	$	(0.58)	$	0.49	$	(0.09)
Weighted average number of shares:								
Common shares - basic		14,718		14,858		14,814		14,856
Class B common shares - basic		3,048		3,048		3,048		3,048
Common shares - diluted		20,229		14,858		17,873		14,856
Class B common shares - diluted		3,048		3,048		3,048		3,048
Dividends per common share	$	0.020	$	0.020	$	0.060	$	0.060
Dividends per Class B common share	$	0.018	$	0.018	$	0.054	$	0.054
Statements of Comprehensive Income (Loss)								
Net income (loss)	$	4,468	$	(11,385)	$	9,517	$	(1,758)
Foreign currency translation		(5,043)		(2,213)		1,089		(16,560)
Fair value adjustments on investments		3		17		1		(116)
Comprehensive income (loss)	$	(572)	$	(13,581)	$	10,607	$	(18,434)

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Richardson Electronics, Ltd.

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended		Nine Months Ended	
	February 27, 2010	February 28, 2009	February 27, 2010	February 28, 2009
Operating activities:				
Net income (loss)	$ 4,468	$ (11,385)	$ 9,517	$ (1,758)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:				
Depreciation and amortization	945	1,103	3,124	3,462
Discontinued operations			1,173	
(Gain) loss on retirement of long-term debt	127		127	(849)
Loss on disposal of assets	9	5,778	7	5,856
Stock compensation expense	152	164	503	468
Deferred income taxes	35	319	119	259
Accounts receivable	(1,389)	6,647	(350)	8,719
Inventories	(3,959)	4,177	1,926	(6,221)
Prepaid expenses	(189)	808	(1,661)	(414)
Accounts payable	15,722	(8,207)	6,991	(2,800)
Accrued liabilities	(395)	(1,505)	551	(3,737)
Long-term income tax liabilities	(111)	(246)	(1,333)	(991)
Other	564	332	(16)	(437)
Net cash provided by (used in) operating activities	15,979	(2,015)	20,678	1,557
Investing activities:				
Capital expenditures	(190)	(389)	(684)	(887)
Discontinued operations settlement	(1,000)		(1,000)	
Proceeds from sale of assets	6	124	6	175
Contingent purchase price		165		26
(Gain) loss on sale of investments	(3)	2	(30)	(8)
Proceeds from sales of available-for-sale securities	29	25	132	124
Purchases of available-for-sale securities	(29)	(25)	(132)	(124)
Net cash used in investing activities	(1,187)	(98)	(1,708)	(694)
Financing activities:				
Proceeds from borrowings		34,400	10,200	92,300
Payments on debt		(34,400)	(10,200)	(92,300)
Retirement of long-term debt	(8,494)		(8,494)	(2,364)
Repurchase of common stock	(2,192)		(2,192)	
Proceeds from issuance of common stock	100		105	5
Cash dividends paid	(347)	(353)	(1,051)	(1,057)
Other			10	
Net cash used in financing activities	(10,933)	(353)	(11,622)	(3,416)
Effect of exchange rate changes on cash and cash equivalents	(2,255)	(429)	326	(4,904)

Increase (decrease) in cash and cash equivalents	1,604	(2,895)	7,674	(7,457)
Cash and cash equivalents at beginning of period	49,957	35,480	43,887	40,042
Cash and cash equivalents at end of period	$ 51,561	$ 32,585	$ 51,561	$ 32,585

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Richardson Electronics, Ltd.

Unaudited Condensed Consolidated Statement of Stockholders Equity

(in thousands)

	Common	Class B Common	Par Value	Additional Paid In Capital	Common Stock in Treasury	(Accumulated Deficit) / Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance May 30, 2009:	15,930	3,048	$ 949	$ 120,370	$ (6,310)	$ (2,475)	$ 6,159	$ 118,693
Net income						9,517		9,517
Foreign currency translation							1,089	1,089
Fair value adjustments on investments							1	1
Share-based compensation:								
Non-vested restricted stock				22				22
Stock options				481				481
Common stock issued	16		1	104				105
Repurchase of common stock					(2,192)			(2,192)
Treasury stock					10			10
Dividends paid to:								
Common ($0.060 per share)				(594)		(292)		(886)
Class B ($0.054 per share)				(110)		(55)		(165)
Balance February 27, 2010:	15,946	3,048	$ 950	$ 120,273	$ (8,492)	$ 6,695	$ 7,249	$ 126,675

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. (we , us , and our) was originally incorporated in the state of Illinois in 1947 and is currently incorporated in the state of Delaware. We are a global provider of engineered solutions and a global distributor of electronic components to the radio frequency (RF), wireless and power conversion, electron device, and display systems markets. Utilizing our core engineering and manufacturing capabilities, our strategy is to provide specialized technical expertise and value-add, or engineered solutions. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, and logistics for end products of our customers. Design-in support includes component modifications or the identification of lower-cost product alternatives or complementary products.

Our products include RF and microwave components, power semiconductors, electron tubes, microwave generators, 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, and communication applications.

Our sales and marketing, product management, and purchasing functions are organized as follows:

RF, Wireless & Power Division (RFPD) serves the global RF and wireless communications market, including infrastructure, wireless networks, and the power conversion market.

Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

Canvys provides global integrated display products, systems and digital signage solutions serving financial, corporate enterprise, healthcare, and industrial markets.

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 condensed 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 Item 10 of Regulation S-K and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements.

References to GAAP issued by the Financial Accounting Standards Board (FASB) in these footnotes are to the *FASB Accounting Standards Codification*, ™ sometimes referred to as the Codification or ASC. The FASB finalized the codification effective for periods ending on or after September 15, 2009.

In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unaudited condensed consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. The results of operations and cash flows for the three and nine months ended February 27, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending May 29, 2010.

Our fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first nine months of fiscal 2010 and 2009 each contain 39 weeks.

The financial information contained in this report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended May 30, 2009.

3. DISCONTINUED OPERATIONS

On May 31, 2007, we completed the sale of the Security Systems Division/Burtek Systems (SSD/Burtek) to Honeywell International Inc. (Honeywell). The sale agreement of SSD/Burtek to Honeywell contemplated a post-closing working capital-based purchase price adjustment.

On December 18, 2009, we reached an agreement with Honeywell to settle the pending working capital disputes as well as other related claims. As a result, we recorded $1.2 million of expense, net of zero tax effect, as a loss from discontinued operations during the second quarter of fiscal 2010. During the third quarter of fiscal 2010, a cash settlement of $1.0 million was paid.

4. INVESTMENT IN MARKETABLE EQUITY SECURITIES

Our investments are primarily equity securities, all of which are classified as available-for-sale and are carried at their fair value, based on the quoted market prices. The fair value of our equity securities, which are included in other non-current assets, were $0.3 million as of February 27, 2010, and May 30, 2009. Proceeds from the sale of securities were an immaterial amount during the third quarter of fiscal 2010 and 2009. Proceeds from the sale of securities were $0.1 million and $0.2 million during the first nine months of fiscal 2010 and 2009, respectively. The cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than $0.1 million during the third quarter and first nine months of fiscal 2010 and 2009. Net unrealized holding gains of less than $0.1 million during the third quarter and first nine months of fiscal 2010 have been included in accumulated other comprehensive income. Net unrealized holding gains of less than $0.1 million during the third quarter of fiscal 2009 have been included in accumulated other comprehensive income. Net unrealized holding losses of $0.1 million during the first nine months of fiscal 2009 have been included in accumulated other comprehensive income.

The following table presents the disclosure as required by FASB Accounting Standards Codification (ASC) 320-10, *Investments Debt and Equity Securities*, for the investment in marketable equity securities with fair values less than cost basis (*in thousands*):

	Marketable Security Holding Length					
	Less Than 12 Months		More Than 12 Months		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
February 27, 2010						
Common Stock	$ 38	$ 4	$ 17	$ 2	$ 55	$ 6
May 30, 2009						
Common Stock	$ 20	$ 1	$ 25	$ 5	$ 45	$ 6

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. INTANGIBLE ASSETS

Intangible assets subject to amortization were as follows (*in thousands*):

	Intangible Assets Subject to Amortization			
	February 27, 2010		May 30, 2009	
	Gross Amounts	Accumulated Amortization	Gross Amounts	Accumulated Amortization
Deferred financing costs	$ 570	$ 416	$ 1,115	$ 683
Trademarks	478	478	478	478
Total	$ 1,048	$ 894	$ 1,593	$ 1,161

Amortization expense during the three and nine month periods ended February 27, 2010, and February 28, 2009, was as follows (*in thousands*):

	Amortization Expense for Three Months		Amortization Expense for Nine Months	
	February 27, 2010	February 28, 2009	February 27, 2010	February 28, 2009
Deferred financing costs	$ 30	$ 48	$ 125	$ 161
Total	$ 30	$ 48	$ 125	$ 161

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
2010	$ 22
2011	$ 86
2012	$ 46
2013	$
2014	$
Thereafter	$

The weighted average number of years of amortization expense as of February 27, 2010, is 1.79.

On March 10, 2010, we notified the holders of our 7 3/4% convertible senior subordinated notes (7 3/4% notes) that we elected to redeem, at par value, $10.0 million in aggregate principal outstanding. The $10.0 million of the 7 3/4% notes were redeemed on March 22, 2010. The redemption of $10.0 million of the 7 3/4% notes resulted in a loss of less than $0.1 million due to the write-off of the associated deferred financing fees.

6. WARRANTIES

We offer warranties for specific products we manufacture. We also provide extended warranties for some products we sell that lengthen the period of coverage specified in the manufacturer s original warranty. Our warranty terms generally range from one to three years, beyond the original manufacturer warranty, primarily related to the Canvys business.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves, which are included in accrued liabilities on our unaudited condensed consolidated balance sheets, were approximately $0.2 million as of February 27, 2010, and May 30, 2009.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT

Long-term debt as of February 27, 2010, and May 30, 2009, was as follows (*in thousands*):

	February 27, 2010	May 30, 2009
7 3/4% convertible senior subordinated notes, due December 2011	$ 43,833	$ 44,683
8% convertible senior subordinated notes, due June 2011		7,670
Total long term debt	$ 43,833	$ 52,353

As of February 27, 2010, we maintained $43.8 million in long-term debt in the form of 7 3/4% notes.

On March 10, 2010, we notified the holders of our 7 3/4% notes that we elected to redeem, at par value, $10.0 million in aggregate principal outstanding. The $10.0 million of the 7 3/4% notes were redeemed on March 22, 2010. The redemption of $10.0 million of the 7 3/4% notes resulted in a loss of less than $0.1 million due to the write-off of the deferred financing costs associated with the 7 3/4% notes. As the revolving credit agreement allows us to retire up to $15.0 million of our outstanding notes or equity, we obtained a waiver to our credit agreement to allow for the $10.0 million redemption of the 7 3/4% notes.

On January 11, 2010, we redeemed all $7.7 million of the 8% convertible senior subordinated notes (8% notes) at par value. The redemption of the 8% notes resulted in a loss of approximately $0.2 million due to the write-off of the remaining deferred financing costs associated with the 8% notes. As the revolving credit agreement allows us to retire up to $15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the $7.7 million of the 8% notes.

On December 9, 2009, we retired $0.9 million of the 7 3/4% notes at approximately 97% of par value, which resulted in a gain of less than $0.1 million, net of deferred financing costs of less than $0.1 million. As the revolving credit agreement allows us to retire up to $15.0 million of our outstanding notes or equity, we did not need to obtain a waiver from our lending group to permit the retirement of the $0.9 million of the 7 3/4% notes.

We entered into a $40.0 million revolving credit agreement on July 27, 2007, which included a Euro sub-facility and a Singapore sub-facility. The U.S. facility is reduced by the amounts drawn on the Euro sub-facility and Singapore sub-facility. Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the total capacity was reduced from $40.0 million to $25.0 million. As of February 27, 2010, there were no amounts outstanding under the revolving credit agreement. Outstanding letters of credit were approximately $0.1 million and we also had $2.5 million reserved for usage on our commercial credit card program, leaving an unused line of $22.4 million as of February 27, 2010. Based on our loan covenants, actual available credit as of February 27, 2010, was $22.4 million. We were in compliance with our loan covenants as of February 27, 2010.

Pursuant to an amendment to the revolving credit agreement entered into on July 20, 2009, the definition of the leverage ratio has been modified to exclude goodwill impairment charges, severance expense, and inventory write-downs in the calculation of adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA), for the fiscal year ended May 30, 2009. We were in compliance with our loan covenants as of May 30, 2009, without this amendment to our revolving credit agreement.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated fair values of our 7 3/4% notes and 8% notes are based on price quotes at February 27, 2010, and May 30, 2009. The following table presents the disclosure under FASB ASC 825-10-50, *Financial Instruments* (*in thousands*):

	February 27, 2010		May 30, 2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
7 3/4% notes	$ 43,833	$ 43,833	$ 44,683	$ 38,235
8% notes			7,670	6,789
Total	$ 43,833	$ 43,833	$ 52,353	$ 45,024

8. INCOME TAXES

The effective income tax rate from continuing operations during the third quarter of fiscal 2010 was a tax provision of 6.8% as compared to a tax provision of 5.2% during the third quarter of fiscal 2009. The effective income tax rate from continuing operations during the first nine months of fiscal 2010 was a *tax benefit* of 6.0% as compared to a tax provision of 1,806.8% during the first nine months of fiscal 2009.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the third quarter and first nine months of fiscal 2010 resulted from our geographical distribution of taxable income or losses. The third quarter of fiscal 2010 included a tax benefit of less than $0.1 million related to prior year s income taxes of certain of our foreign jurisdictions and a tax benefit of approximately $0.1 million of reserve reversals related to expiring statutes of limitations. The first nine months of fiscal 2010 included a $0.6 million tax benefit related to prior year s income taxes of certain of our foreign jurisdictions and a tax benefit of approximately $1.4 million of reserve reversals related to expiring statutes of limitations.

The difference between the effective tax rate as compared to the U.S. federal statutory rate of 34% during the third quarter and first nine months of fiscal 2009 resulted from our geographical distribution of taxable income or losses. The third quarter of fiscal 2009 included a tax benefit of $0.2 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a tax provision of $0.1 million related to prior year s income tax of one of our foreign jurisdictions. The first nine months of fiscal 2009 included a tax benefit of $1.0 million related to the partial release of the valuation allowance related to net operating losses which was partially offset by a tax provision of $0.6 million related to prior year s income tax of one of our foreign jurisdictions.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state, or local tax examinations by tax authorities for years prior to fiscal year 2004. With few exceptions, we are no longer subject to non-U.S. income tax examinations by tax authorities for years prior to fiscal year 2003. Our primary foreign tax jurisdictions are China, Japan, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal year 2003; in Japan beginning in fiscal year 2004; in the Netherlands and Germany beginning in fiscal year 2005; and in China beginning in calendar year 2004.

As of February 27, 2010, our worldwide liability for uncertain tax positions, excluding interest and penalties, was $3.3 million as compared to $4.3 million as of May 30, 2009. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited condensed consolidated statements of operations and comprehensive income (loss). The net liability for uncertain tax positions decreased during the three months ended February 27, 2010, primarily due to the expiration of certain statutes of limitation.

It is reasonably possible that there will be a change in the unrecognized tax benefits, excluding interest and penalties, in the range of $0 to approximately $0.1 million due to the expiration of various statutes of limitations within the next 12 months.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. CALCULATION OF EARNINGS PER SHARE

We have authorized 30,000,000 shares of common stock, 10,000,000 shares of Class B common stock, and 5,000,000 shares of preferred stock. The Class B common stock has ten 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 common stock cash dividends.

In accordance with FASB 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 common stock cash dividends.

Diluted earnings per share is calculated by dividing net income, adjusted for interest savings, net of tax, on assumed conversion of convertible debentures and notes, by the actual shares outstanding and share equivalents that would arise from the exercise of stock options, certain restricted stock awards, and the assumed conversion of convertible debentures and notes when dilutive. For the third quarter of fiscal 2010, the assumed conversion and the effect of the interest savings of our 7 $^{3}/_{4}$% notes were included because their inclusion was dilutive. For the first nine months of fiscal 2010, the assumed conversion and the effect of the interest savings of our 7 $^{3}/_{4}$% notes were excluded because their inclusion would have been anti-dilutive For the third quarter and first nine months of fiscal 2009, the assumed conversion and the effect of the interest savings of our 7 $^{3}/_{4}$% notes and 8% notes were excluded because their inclusion would have been anti-dilutive.

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

	Three Months Ended			
	February 27, 2010		February 28, 2009	
	Basic	Diluted *(1)*	Basic	Diluted
Numerator for basic and diluted EPS:				
Income (loss) from continuing operations	$ 4,468	$ 4,994	$ (11,385)	$ (11,385)
Less dividends:				
Common stock	292	341	298	298
Class B common stock	55	55	55	55
Undistributed earnings (losses)	$ 4,121	$ 4,598	$ (11,738)	$ (11,738)
Common stock undistributed earnings (losses)	$ 3,474	$ 3,965	$ (9,909)	$ (9,909)
Class B common stock undistributed earnings (losses)	647	633	(1,829)	(1,829)
Total undistributed earnings (losses)	$ 4,121	$ 4,598	$ (11,738)	$ (11,738)

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended			
	February 27, 2010		February 28, 2009	
	Basic	Diluted *(1)*	Basic	Diluted
Numerator for basic and diluted EPS continued:				
Loss from discontinued operations	$	$	$	$
Less dividends:				
Common stock	292	341	298	298
Class B common stock	55	55	55	55
Undistributed losses	$ (347)	$ (396)	$ (353)	$ (353)
Common stock undistributed losses	$ (292)	$ (341)	$ (298)	$ (298)
Class B common stock undistributed losses	(55)	(55)	(55)	(55)
Total undistributed losses	$ (347)	$ (396)	$ (353)	$ (353)
Net income (loss)	$ 4,468	$ 4,994	$ (11,385)	$ (11,385)
Less dividends:				
Common stock	292	341	298	298
Class B common stock	55	55	55	55
Undistributed earnings (losses)	$ 4,121	$ 4,598	$ (11,738)	$ (11,738)
Common stock undistributed earnings (losses)	$ 3,474	$ 3,965	$ (9,909)	$ (9,909)
Class B common stock undistributed earnings (losses)	647	633	(1,829)	(1,829)
Total undistributed earnings (losses)	$ 4,121	$ 4,598	$ (11,738)	$ (11,738)
Denominator for basic and diluted EPS:				
Denominator for basic EPS:				
Common stock weighted average shares	14,718	14,718	14,858	14,858
Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share	3,048	3,048	3,048	3,048
Effect of dilutive securities				
Unvested restricted stock awards		4		
Dilutive stock options		24		
Convertible 7 3/4% notes		2,435		
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		20,229		17,906
Income (loss) from continuing operations per share:				
Common stock	$ 0.26	$ 0.25	$ (0.65)	$ (0.65)
Class B common stock	$ 0.23	$ 0.23	$ (0.58)	$ (0.58)

Net income (loss) per share:				
Common stock	$ 0.26	$ 0.25	$ (0.65)	$ (0.65)
Class B common stock	$ 0.23	$ 0.23	$ (0.58)	$ (0.58)

(1) Net income and common stock dividends for the three months ended February 27, 2010, have been adjusted for the dilutive impact of the conversion of our 7 ^{3}/4% notes.

Note: Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the third quarter of fiscal 2010 and 2009 were 1,774,491 and 1,784,623, respectively.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended			
	February 27, 2010		February 28, 2009	
	Basic	Diluted	Basic	Diluted
Numerator for basic and diluted EPS:				
Income (loss) from continuing operations	$ 10,690	$ 10,690	$ (1,758)	$ (1,758)
Less dividends:				
Common stock	886	886	892	892
Class B common stock	165	165	165	165
Undistributed earnings (losses)	$ 9,639	$ 9,639	$ (2,815)	$ (2,815)
Common stock undistributed earnings (losses)	$ 8,133	$ 8,134	$ (2,376)	$ (2,376)
Class B common stock undistributed earnings (losses)	1,506	1,505	(439)	(439)
Total undistributed earnings (losses)	$ 9,639	$ 9,639	$ (2,815)	$ (2,815)
Loss from discontinued operations	$ (1,173)	$ (1,173)	$	$
Less dividends:				
Common stock	886	886	892	892
Class B common stock	165	165	165	165
Undistributed losses	$ (2,224)	$ (2,224)	$ (1,057)	$ (1,057)
Common stock undistributed losses	$ (1,877)	$ (1,877)	$ (892)	$ (892)
Class B common stock undistributed losses	(347)	(347)	(165)	(165)
Total undistributed losses	$ (2,224)	$ (2,224)	$ (1,057)	$ (1,057)
Net income (loss)	$ 9,517	$ 9,517	$ (1,758)	$ (1,758)
Less dividends:				
Common stock	886	886	892	892
Class B common stock	165	165	165	165
Undistributed earnings (losses)	$ 8,466	$ 8,466	$ (2,815)	$ (2,815)
Common stock undistributed earnings (losses)	$ 7,143	$ 7,144	$ (2,376)	$ (2,376)
Class B common stock undistributed earnings (losses)	1,323	1,322	(439)	(439)
Total undistributed earnings (losses)	$ 8,466	$ 8,466	$ (2,815)	$ (2,815)
Denominator for basic and diluted EPS:				
Denominator for basic EPS:				
Common stock weighted average shares	14,814	14,814	14,856	14,856
Class B common stock weighted average shares, and shares under if-converted method for diluted earnings per share	3,048	3,048	3,048	3,048
Effect of dilutive securities				
Unvested restricted stock awards		5		

Dilutive stock options		6		
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		17,873		17,904
Income (loss) from continuing operations per share:				
Common stock	$ 0.61	$ 0.60	$ (0.10)	$ (0.10)
Class B common stock	$ 0.55	$ 0.55	$ (0.09)	$ (0.09)
Loss from discontinued operations per share:				
Common stock	$ (0.07)	$ (0.07)	$	$
Class B common stock	$ (0.06)	$ (0.06)	$	$
Net income (loss) per share:				
Common stock	$ 0.54	$ 0.53	$ (0.10)	$ (0.10)
Class B common stock	$ 0.49	$ 0.49	$ (0.09)	$ (0.09)

Note: Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the first nine months of fiscal 2010 and 2009 were 1,792,599 and 1,784,623, respectively.

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. SEGMENT REPORTING

Based on our interpretation of FASB ASC 280-10, *Segment Reporting*, we have identified three reportable segments: the RF, Wireless & Power Division (RFPD), the Electron Device Group (EDG), and Canvys.

RFPD serves the global RF and wireless communications market, including infrastructure, and wireless networks, and the power conversion market.

EDG provides engineered solutions and distributes electronic components to customers in diverse markets including the steel, automotive, textile, plastics, semiconductor manufacturing, and broadcast industries.

Canvys provides global integrated display products, systems and digital signage solutions serving financial, corporate enterprise, healthcare, and industrial markets.

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

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

	Net Sales	Gross Profit *(1)*	Assets *(2)*
Third Quarter Fiscal 2010			
RFPD	$ 87,922	$ 19,032	$ 118,777
EDG	21,229	7,061	34,455
Canvys	12,179	3,314	12,028
Total	$ 121,330	$ 29,407	$ 165,260
Third Quarter Fiscal 2009			
RFPD	$ 80,565	$ 17,786	$ 124,542
EDG	17,993	5,383	44,226
Canvys	11,743	636	15,251
Total	$ 110,301	$ 23,805	$ 184,019
First Nine Months Fiscal 2010			
RFPD	$ 250,218	$ 54,575	$ 118,777
EDG	60,146	20,694	34,455
Canvys	36,392	9,649	12,028
Total	$ 346,756	$ 84,918	$ 165,260
First Nine Months Fiscal 2009			
RFPD	$ 270,882	$ 59,955	$ 124,542
EDG	65,254	20,823	44,226

Canvys	45,676	9,122	15,251
Total	$ 381,812	$ 89,900	$ 184,019

(1) Included in gross profit during the third quarter and first nine months of fiscal 2009 are inventory write-downs of $0.2 million in EDG and $1.8 million in Canvys.

(2) Includes accounts receivable, inventory, and goodwill.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of net sales, gross profit, and segment assets to the relevant consolidated amounts is as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	February 27, 2010	**February 28, 2009**	**February 27, 2010**	**February 28, 2009**
Segment net sales	$ 121,330	$ 110,301	$ 346,756	$ 381,812
Corporate		15		2
Net sales	$ 121,330	$ 110,316	$ 346,756	$ 381,814
Segment gross profit *(1)*	$ 29,407	$ 23,805	$ 84,918	$ 89,900
Manufacturing variances and other costs	1	(79)		(277)
Gross profit	$ 29,408			