

RICHARDSON ELECTRONICS LTD/DE

Form 10-Q

April 09, 2009

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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 28, 2009

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**

(Address of principal executive offices)

**LaFox, Illinois 60147-0393**

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

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

Indicate by check mark whether the registrant 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	x
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Non-Accelerated Filer      (Do not check if a smaller reporting company)      Smaller Reporting Company     

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, 2009, there were outstanding 14,865,370 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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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Richardson Electronics, Ltd.****Unaudited Condensed Consolidated Balance Sheets***(in thousands, except per share amounts)*

	<b>February 28, 2009</b>	<b>May 31, 2008</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 32,585	\$ 40,042
Accounts receivable, less allowance of \$1,859 and \$1,635	92,468	109,520
Inventories	94,420	93,858
Prepaid expenses	4,662	4,300
Deferred income taxes	1,929	2,121
<b>Total current assets</b>	<b>226,064</b>	<b>249,841</b>
<b>Non-current assets:</b>		
Property, plant and equipment, net	20,008	28,635
Goodwill	1,432	1,483
Other intangible assets, net	480	758
Non-current deferred income taxes	3,493	3,875
Assets held for sale		105
Other non-current assets	256	1,538
<b>Total non-current assets</b>	<b>25,669</b>	<b>36,394</b>
<b>Total assets</b>	<b>\$ 251,733</b>	<b>\$ 286,235</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 53,255	\$ 58,860
Accrued liabilities	17,376	21,818
<b>Total current liabilities</b>	<b>70,631</b>	<b>80,678</b>
<b>Non-current liabilities:</b>		
Long-term debt	52,353	55,683
Long-term income tax liabilities	4,900	6,768
Other non-current liabilities	1,437	1,676
<b>Total non-current liabilities</b>	<b>58,690</b>	<b>64,127</b>
<b>Total liabilities</b>	<b>129,321</b>	<b>144,805</b>

**Commitments and contingencies**

**Stockholders' equity**

Common stock, \$0.05 par value; issued 15,930 shares at February 28, 2009, and 15,929 shares at May 31, 2008	797	797
Class B common stock, convertible, \$0.05 par value; issued 3,048 shares at February 28, 2009, and 3,048 shares at May 31, 2008	152	152
Preferred stock, \$1.00 par value, no shares issued		
Additional paid-in-capital	120,208	119,735
Common stock in treasury, at cost, 1,065 shares at February 28, 2009, and 1,065 shares at May 31, 2008	(6,310)	(6,310)
Retained earnings	8,283	11,098
Accumulated other comprehensive income (loss)	(718)	15,958
<b>Total stockholders' equity</b>	<b>122,412</b>	<b>141,430</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 251,733</b>	<b>\$ 286,235</b>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>	<b>March 1,</b>	<b>February 28,</b>	<b>March 1,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Statements of Operations</b>				
<b>Net sales</b>	\$ 110,316	\$ 138,866	\$ 381,814	\$ 413,316
Cost of sales	86,590	107,625	292,191	315,637
<b>Gross profit</b>	23,726	31,241	89,623	97,679
Selling, general, and administrative expenses	27,686	32,029	84,089	93,312
(Gain) loss on disposal of assets	5,778	(81)	5,856	(70)
<b>Operating income (loss)</b>	(9,738)	(707)	(322)	4,437
Other (income) expense:				
Interest expense	1,130	1,371	3,489	5,615
Investment (income) loss	33	45	(337)	(571)
Foreign exchange (gain) loss	(153)	(249)	(2,636)	1,552
Gain on retirement of long-term debt			(849)	
Other, net	74	25	(92)	33
Total other (income) expense	1,084	1,192	(425)	6,629
<b>Income (loss) from continuing operations before income taxes</b>	(10,822)	(1,899)	103	(2,192)
Income tax provision	563	267	1,861	1,045
<b>Loss from continuing operations</b>	(11,385)	(2,166)	(1,758)	(3,237)
Income (loss) from discontinued operations, net of tax		(10)		45
<b>Net loss</b>	\$ (11,385)	\$ (2,176)	\$ (1,758)	\$ (3,192)
Net loss per common share basic:				
Loss from continuing operations	\$ (0.65)	\$ (0.12)	\$ (0.10)	\$ (0.18)
Income (loss) from discontinued operations	0.00	(0.00)	0.00	0.00
<b>Net loss per common share basic</b>	\$ (0.65)	\$ (0.12)	\$ (0.10)	\$ (0.18)
Net loss per Class B common share basic:				
Loss from continuing operations	\$ (0.58)	\$ (0.11)	\$ (0.09)	\$ (0.17)
Income (loss) from discontinued operations	0.00	(0.00)	0.00	0.01
<b>Net loss per Class B common share basic</b>	\$ (0.58)	\$ (0.11)	\$ (0.09)	\$ (0.16)

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Net loss per common share diluted:

Loss from continuing operations	\$	(0.65)	\$	(0.12)	\$	(0.10)	\$	(0.18)
Income (loss) from discontinued operations		0.00		(0.00)		0.00		0.00

**Net loss per common share diluted** \$ (0.65) \$ (0.12) \$ (0.10) \$ (0.18)

Net loss per Class B common share diluted:

Loss from continuing operations	\$	(0.58)	\$	(0.11)	\$	(0.09)	\$	(0.17)
Income (loss) from discontinued operations		0.00		(0.00)		0.00		0.01

**Net loss per Class B common share diluted** \$ (0.58) \$ (0.11) \$ (0.09) \$ (0.16)

**Weighted average number of shares:**

Common shares - basic	14,858	14,805	14,856	14,790
Class B common shares - basic	3,048	3,048	3,048	3,048
Common shares - diluted	14,858	14,805	14,856	14,790
Class B common shares - diluted	3,048	3,048	3,048	3,048

**Dividends per common share** \$ 0.020 \$ 0.020 \$ 0.060 \$ 0.100

**Dividends per Class B common share** \$ 0.018 \$ 0.018 \$ 0.054 \$ 0.090

## Statements of Comprehensive Income (Loss)

Net loss	\$	(11,385)	\$	(2,176)	\$	(1,758)	\$	(3,192)
Foreign currency translation		(2,213)		3,233		(16,560)		12,033
Fair value adjustments on investments		17		111		(116)		(244)

**Comprehensive income (loss)** \$ (13,581) \$ 1,168 \$ (18,434) \$ 8,597

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28,</b>	<b>March 1,</b>	<b>February 28,</b>	<b>March 1,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>				
<b>Net loss</b>	\$ (11,385)	\$ (2,176)	\$ (1,758)	\$ (3,192)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:				
Depreciation and amortization	1,103	1,367	3,462	3,940
Gain on retirement of long-term debt			(849)	
(Gain) loss on disposal of assets	5,778	(81)	5,856	(70)
Write-off of deferred financing costs				643
Stock compensation expense	164	176	468	523
Deferred income taxes	319	49	259	(930)
Accounts receivable	6,647	2,401	8,719	7,801
Inventories	4,177	10,115	(6,221)	8,686
Prepaid expenses	808	685	(414)	1,217
Accounts payable	(8,207)	(10,010)	(2,800)	1,681
Accrued liabilities	(1,505)	(1,745)	(3,737)	(8,590)
Other	86	(1,186)	(1,428)	(3,451)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,015)</b>	<b>(405)</b>	<b>1,557</b>	<b>8,258</b>
<b>Investing activities:</b>				
Capital expenditures	(389)	(301)	(887)	(4,193)
Proceeds from sale of assets	124	620	175	1,007
Contingent purchase price	165	(160)	26	(160)
(Gain) loss on sale of investments	2	121	(8)	129
Proceeds from sales of available-for-sale securities	25	188	124	345
Purchases of available-for-sale securities	(25)	(31)	(124)	(188)
<b>Net cash provided by (used in) investing activities</b>	<b>(98)</b>	<b>437</b>	<b>(694)</b>	<b>(3,060)</b>
<b>Financing activities:</b>				
Proceeds from borrowings	34,400	51,800	92,300	163,200
Payments on debt	(34,400)	(41,800)	(92,300)	(218,840)
Retirement of long-term debt			(2,364)	
Restricted cash				61,899
Proceeds from issuance of common stock			5	69
Cash dividends	(353)	(351)	(1,057)	(1,756)
Other				(95)
<b>Net cash provided by (used in) financing activities</b>	<b>(353)</b>	<b>9,649</b>	<b>(3,416)</b>	<b>4,477</b>
Effect of exchange rate changes on cash and cash equivalents	(429)	661	(4,904)	3,431
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,895)</b>	<b>10,342</b>	<b>(7,457)</b>	<b>13,106</b>
Cash and cash equivalents at beginning of period	35,480	20,200	40,042	17,436
<b>Cash and cash equivalents at end of period</b>	<b>\$ 32,585</b>	<b>\$ 30,542</b>	<b>\$ 32,585</b>	<b>\$ 30,542</b>





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

				Additional	Common		Accumulated	
	Common	Class B	Par	Paid In	Stock in	Retained	Other	
	Common	Common	Value	Capital	Treasury	Earnings	Comprehensive	Total
							Income	
							(Loss)	
<b>Balance May 31, 2008:</b>	15,929	3,048	\$ 949	\$ 119,735	\$ (6,310)	\$ 11,098	\$ 15,958	\$ 141,430
Net loss						(1,758)		(1,758)
Foreign currency translation							(16,560)	(16,560)
Fair value adjustments on investments							(116)	(116)
Share-based compensation:								
Non-vested restricted stock				25				25
Stock options				443				443
Common stock issued	1			5				5
Dividends paid to:								
Common (\$0.060 per share)						(892)		(892)
Class B (\$0.054 per share)						(165)		(165)
<b>Balance February 28, 2009:</b>	15,930	3,048	\$ 949	\$ 120,208	\$ (6,310)	\$ 8,283	\$ (718)	\$ 122,412

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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, we are committed to a strategy of providing specialized technical expertise and value-added products, or engineered solutions, in response to our customers' needs. These solutions include products which we manufacture or modify and products which are manufactured to our specifications by independent manufacturers under our own private labels. Additionally, 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 data display monitors. 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* (formerly the Display Systems Group or DSG ) 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. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements.

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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 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 28, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending May 30, 2009.

During the second quarter of fiscal 2009, we renamed our DSG business unit to Canvys. This change from DSG to Canvys signifies its evolution to a market-driven solutions group.

During the first quarter of fiscal 2009, we moved our Cathode Ray Tube ( CRT ) product line from our Canvys segment to our EDG segment. As a result of implementing a new business plan for Canvys during the third quarter of fiscal 2008, the CRT product line more closely aligned with the existing EDG business model. Prior period segment information has been restated to reflect this change.

Our fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first nine months of fiscal 2009 and 2008 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 31, 2008.

**3. DISCONTINUED OPERATIONS / ASSETS HELD FOR SALE****Discontinued Operations Held for Sale:**

On May 31, 2007, we completed the sale of the Security Systems Division/Burtek Systems ( SSD/Burtek ) to Honeywell International Incorporated ( Honeywell ). We present SSD/Burtek as a discontinued operation in accordance with the criteria of Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ), and prior period results and disclosures have been restated to reflect this reporting.

The sale agreement of SSD/Burtek to Honeywell contemplated a post-closing working capital-based purchase price adjustment. During the second quarter of fiscal 2008, we received notification from Honeywell seeking a purchase price adjustment in the amount of \$6.4 million. During the third and fourth quarters of fiscal 2008, we reviewed and responded to Honeywell's notice. We believe this claim to be without merit and intend to vigorously defend our position with respect to this claim. Should we ultimately pay Honeywell all, or a significant portion, of the requested amount, it could have a material adverse impact on results of our discontinued operations and cash flows.

Net sales, gross profit, income tax provision (benefit), and income (loss) from discontinued operations for the three and nine months ended March 1, 2008, are presented in the following table (*in thousands*):

	<b>Three Months March 1, 2008</b>	<b>Nine Months March 1, 2008</b>
Net Sales	\$ 167	\$ 736
Gross profit	41	209
Income tax provision (benefit)	(4)	21
Income (loss), net of tax	(10)	45

The net sales, gross profit, income tax provision (benefit), and income (loss) from discontinued operations during the three and nine months ended March 1, 2008, represent the operations of our Colombia location which were included in the SSD/Burtek sale agreement with Honeywell, but were not transferred as part of the May 31, 2007, closing. During the first quarter of fiscal 2008, we mutually agreed with Honeywell that Honeywell would not purchase the SSD/Burtek Colombia business, and that we would wind down the SSD/Burtek Colombia business in exchange for a payment from Honeywell equal to a portion of the value of the SSD/

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Burtek business in Colombia on May 31, 2007, including reimbursement of related employee severance expenses. We ceased operations of the SSD/Burtek business in Colombia during the third quarter of fiscal 2008. Results of the operation of the SSD/Burtek business in Colombia are included in discontinued operations in accordance with SFAS No. 144.

**Assets Held for Sale:**

On February 20, 2009, we sold our building in Mexico City, Mexico, for \$0.1 million. We recorded an immaterial gain during the third quarter of fiscal 2009 with respect to the sale of this property.

**4. ASSET DISPOSALS**

During the third quarter of fiscal 2009, management made the decision to not implement various modules of enterprise resource management software that were in the development stage and were capitalized in accordance with Accounting Standards Executive Committee State of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As a result, we recorded a loss on disposal of \$5.8 million during the third quarter of fiscal 2009.

**5. 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 28, 2009, and \$0.4 million as of May 31, 2008. Proceeds from the sale of securities were an immaterial amount during the third quarter of fiscal 2009 and \$0.2 million during the third quarter of fiscal 2008. Proceeds from the sale of securities were \$0.1 million and \$0.3 million during the first nine months of fiscal 2009 and 2008, respectively. During the third quarter of fiscal 2008, we retained \$0.2 million of proceeds from the sale of securities. In prior periods, all proceeds from the sale of securities were reinvested. Gross realized gains on those sales were an immaterial amount during the third quarter and first nine months of fiscal 2009 and 2008. Gross realized losses on those sales were an immaterial amount during the third quarter and first nine months of fiscal 2009. Gross realized losses on those sales were \$0.2 million for both the third quarter and first nine months of fiscal 2008. Net unrealized holding losses of \$0.1 million during the first nine months of fiscal 2009 have been included in accumulated other comprehensive income for fiscal 2009. Net unrealized holding losses of \$0.1 million and \$0.4 million during the third quarter and first nine months of fiscal 2008, respectively, have been included in accumulated comprehensive income for fiscal 2008.

The following table presents the disclosure under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, for the investment in marketable equity securities with fair values less than cost basis (*in thousands*):

Description of Securities	Marketable Security Holding Length				Total	
	Less Than 12 Months Fair Value	Unrealized Losses	More Than 12 Months Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
February 28, 2009						
Common Stock	\$ 12	\$ 15	\$ 26	\$ 16	\$ 38	\$ 31
May 31, 2008						
Common Stock	\$ 25	\$ 3	\$ 46	\$ 5	\$ 71	\$ 8

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Changes in the carrying amount of goodwill during the first nine months ended February 28, 2009, by reportable segment were as follows (*in thousands*):

	<b>Goodwill</b>			
	<b>RFPD</b>	<b>EDG</b>	<b>Canvys</b>	<b>Total</b>
Balance at May 31, 2008	\$ 551	\$ 932	\$	\$ 1,483
Contingent purchase price consideration	(26)			(26)
Foreign currency translation	7	(32)		(25)
Balance at February 28, 2009	\$ 532	\$ 900	\$	\$ 1,432

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

	<b>Intangible Assets Subject to Amortization</b>			
	<b>February 28, 2009</b>		<b>May 31, 2008</b>	
	<b>Gross Amounts</b>	<b>Accumulated Amortization</b>	<b>Gross Amounts</b>	<b>Accumulated Amortization</b>
Deferred financing costs	\$ 1,115	\$ 635	\$ 2,744	\$ 1,986
Trademarks	478	478	478	478
<b>Total</b>	<b>\$ 1,593</b>	<b>\$ 1,113</b>	<b>\$ 3,222</b>	<b>\$ 2,464</b>

Deferred financing costs decreased during the first nine months of fiscal 2009 due primarily to the write-off of previously capitalized deferred financing costs of \$0.1 million related to the retirement of \$3.3 million of the 8% convertible senior subordinated notes ( 8% notes ) on November 7, 2008, and the write-off of fully amortized deferred financing costs.

Amortization expense during the three and nine month periods ended February 28, 2009, and March 1, 2008, was as follows (*in thousands*):

	<b>Amortization Expense for Three Months</b>		<b>Amortization Expense for Nine Months</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Deferred financing costs	\$ 48	\$ 58	\$ 161	\$ 216
<b>Total</b>	<b>\$ 48</b>	<b>\$ 58</b>	<b>\$ 161</b>	<b>\$ 216</b>

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

<b>Fiscal Year</b>	<b>Amortization Expense</b>
2009	\$ 48
2010	\$ 190
2011	\$ 190

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2012	\$	52
2013	\$	
Thereafter	\$	

The weighted average number of years of amortization expense remaining is 2.52.

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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.

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 unaudited condensed consolidated statements of operations and 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, the extended warranty period, and warranty experience.

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 unaudited condensed consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence.

Changes in the warranty reserve during the first nine months of fiscal 2009 were as follows (*in thousands*):

	<b>Warranty Reserve</b>
Balance at May 31, 2008	\$ 377
Accruals for products sold	362
Utilization	(399)
Adjustment	(70)
Foreign currency translation	(17)
Balance at February 28, 2009	\$ 253

The reserve adjustment was a result of lower sales volume of products under warranty and lower than estimated failure rates.

**8. DEBT**

Long-term debt for the periods ended February 28, 2009, and May 31, 2008, was as follows (*in thousands*):

	<b>February 28, 2009</b>	<b>May 31, 2008</b>
7 <sup>3</sup> / <sub>4</sub> % convertible senior subordinated notes, due December 2011	\$ 44,683	\$ 44,683
8% convertible senior subordinated notes, due June 2011	7,670	11,000
Revolving credit agreement, due July 2010		
Total debt	52,353	55,683
Less: current portion		
Long-term debt	\$ 52,353	\$ 55,683

As of February 28, 2009, we maintained \$52.4 million in long-term debt in the form of two series of convertible notes. On November 7, 2008, we retired \$3.3 million of the 8% notes at approximately 71% of par value, which resulted in a gain of \$0.8 million, net of deferred financing costs of \$0.1 million. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes, we did not need to obtain a waiver from our lending group to permit the retirement of \$3.3 million of the 8% notes. The retirement was financed through the use of cash available as of November 7, 2008.





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We entered into a revolving credit agreement on July 27, 2007, which included a Euro sub-facility of \$15.0 million and a Singapore sub-facility of \$5.0 million. Pursuant to an amendment to the revolving credit agreement entered into on February 29, 2008, the Euro sub-facility and Singapore sub-facility individual limits were increased to \$20.0 million each; however, the total amount of the combined Euro sub-facility and Singapore sub-facility is limited to \$25.0 million. The U.S. facility is reduced by the amounts drawn on the Euro sub-facility and Singapore sub-facility, maintaining a total capacity of \$40.0 million on the revolving credit agreement. This revolving credit agreement expires in July 2010 and bears interest at applicable LIBOR, SIBOR, or prime rates plus a margin varying with certain quarterly borrowings under the revolving credit agreement. This revolving credit agreement is secured by a lien on our U.S. assets and also contains a financial covenant requiring us to maintain a leverage ratio of less than 2.0 to 1.0. Pursuant to an amendment to the revolving credit agreement entered into on November 29, 2007, the leverage ratio was increased to 3.0 to 1.0 for the fiscal quarters ended December 1, 2007, and March 1, 2008. The commitment fee related to the revolving credit agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment. As of February 28, 2009, there were no amounts outstanding under the revolving credit agreement. Outstanding letters of credit were approximately \$0.1 million and we also had \$1.1 million reserved for usage on our commercial credit card program, leaving an unused line of \$38.8 million as of February 28, 2009. Based on our loan covenants, actual available credit as of February 28, 2009, was \$40.0 million.

Pursuant to an amendment to the revolving credit agreement entered into on July 29, 2008, the definition of the leverage ratio was modified to exclude the goodwill impairment charge in the calculation of adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA), for the fiscal year ended May 31, 2008. We were in compliance with our loan covenants as of May 31, 2008, without this amendment to our revolving credit agreement.

Interest expense decreased to \$1.1 million and \$3.5 million during the three and nine month periods ended February 28, 2009, respectively, as compared with \$1.4 million and \$5.6 million during the three and nine months periods ended March 1, 2008, respectively. The components of interest expense from continuing operations are shown in the following table (*in thousands*):

	Three Months		Nine Months	
	February 28, 2009	March 1, 2008	February 28, 2009	March 1, 2008
7 <sup>3</sup> / <sub>4</sub> % convertible senior subordinated notes interest expense	\$ 866	\$ 866	\$ 2,597	\$ 2,597
8% convertible senior subordinated notes interest expense	157	220	575	660
Multi-currency revolving credit agreement interest expense				556
Revolving credit agreement interest expense	39	210	86	885
Deferred financing costs amortization	48	58	161	216
Write-off of deferred financing costs				643
Other	20	17	70	58
Total interest expense	\$ 1,130	\$ 1,371	\$ 3,489	\$ 5,615

Interest expense incurred on the multi-currency revolving credit agreement (credit agreement) during the first nine months of fiscal 2008 was due primarily to borrowings to support working capital investments. During the first quarter of fiscal 2008, we wrote off \$0.6 million of deferred financing costs due to the extinguishment of the credit agreement on July 27, 2007.

**9. INCOME TAXES**

The effective income tax rate for the third quarter and first nine months of fiscal 2009 was a provision of 5.2% and 1806.8%, respectively, as compared with a provision of 14.1% and 47.7% for the third quarter and first nine months of fiscal 2008, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from our

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geographical distribution of taxable income or losses and valuation allowances related to net operating losses. For the first nine months of fiscal 2009, we incurred tax expense due to an increase in valuation allowances related to an increase in net operating losses of approximately \$7.0 million. We realized a tax benefit from the reduction in tax reserves of approximately \$1.0 million, including interest and penalties. The tax provision for the first nine months of fiscal 2009 includes \$0.6 million related to prior years 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 2002. Our primary foreign tax jurisdictions are the United Kingdom, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal year 2002; in the Netherlands, Germany and the U.S. beginning in fiscal year 2004; and in the United Kingdom beginning in fiscal year 2006.

As of February 28, 2009, our worldwide liability for uncertain tax positions, excluding interest and penalties, is \$4.4 million as compared to \$5.0 million as of May 31, 2008. 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 in the three months ended February 28, 2009, primarily due to closure 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 \$1.0 million due to the expiration of various statutes of limitations within the next 12 months.

## **10. 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 Emerging Issues Task Force ( EITF ) Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* ( EITF No. 03-6 ), 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 EITF No. 03-6. 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 third quarter and first nine months of fiscal 2009 and 2008, the assumed conversion and the effect of the interest savings of our 8% notes and 7<sup>3</sup>/<sub>4</sub>% convertible senior subordinated notes ( 7<sup>1</sup>/<sub>4</sub> % notes ) were excluded because their inclusion would have been anti-dilutive.

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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 28, 2009		March 1, 2008	
	Basic	Diluted	Basic	Diluted
Numerator for basic and diluted EPS:				
<b>Loss from continuing operations</b>	\$ (11,385)	\$ (11,385)	\$ (2,166)	\$ (2,166)
Less dividends:				
Common stock	298	298	296	296
Class B common stock	55	55	55	55
Undistributed losses	\$ (11,738)	\$ (11,738)	\$ (2,517)	\$ (2,517)
Common stock undistributed losses	\$ (9,909)	\$ (9,909)	\$ (2,124)	\$ (2,124)
Class B common stock undistributed losses	(1,829)	(1,829)	(393)	(393)
Total undistributed losses	\$ (11,738)	\$ (11,738)	\$ (2,517)	\$ (2,517)
<b>Loss from discontinued operations</b>	\$	\$	\$ (10)	\$ (10)
Less dividends:				
Common stock	298	298	296	296
Class B common stock	55	55	55	55
Undistributed losses	\$ (353)	\$ (353)	\$ (361)	\$ (361)
Common stock undistributed losses	\$ (298)	\$ (298)	\$ (305)	\$ (305)
Class B common stock undistributed losses	(55)	(55)	(56)	(56)
Total undistributed losses	\$ (353)	\$ (353)	\$ (361)	\$ (361)
<b>Net loss</b>	\$ (11,385)	\$ (11,385)	\$ (2,176)	\$ (2,176)
Less dividends:				
Common stock	298	298	296	296
Class B common stock	55	55	55	55
Undistributed losses	\$ (11,738)	\$ (11,738)	\$ (2,527)	\$ (2,527)
Common stock undistributed losses	\$ (9,909)	\$ (9,909)	\$ (2,132)	\$ (2,132)
Class B common stock undistributed losses	(1,829)	(1,829)	(395)	(395)
Total undistributed losses	\$ (11,738)	\$ (11,738)	\$ (2,527)	\$ (2,527)
<b>Denominator for basic and diluted EPS:</b>				
Denominator for basic EPS:				
Common stock weighted average shares	14,858	14,858	14,805	14,805
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

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Effect of dilutive securities

Unvested restricted stock awards

Dilutive stock options

Conversion of 8% notes

Conversion of 7 <sup>3</sup>/<sub>4</sub>% notes

Denominator for diluted EPS adjusted for weighted average shares and assumed conversions	17,906	17,853
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## Loss from continuing operations per share:

Common stock	\$ (0.65)	\$ (0.65)	\$ (0.12)	\$ (0.12)
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Class B common stock	\$ (0.58)	\$ (0.58)	\$ (0.11)	\$ (0.11)
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## Loss from discontinued operations per share:

Common stock	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.00)
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Class B common stock	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.00)
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## Net loss per share:

Common stock	\$ (0.65)	\$ (0.65)	\$ (0.12)	\$ (0.12)
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Class B common stock	\$ (0.58)	\$ (0.58)	\$ (0.11)	\$ (0.11)
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*Note:* Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the third quarter of fiscal 2009 and fiscal 2008 were 1,784,623 and 1,727,589, respectively.

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	Nine Months Ended			
	February 28, 2009		March 1, 2008	
	Basic	Diluted (1)	Basic	Diluted
Numerator for basic and diluted EPS:				
<b>Loss from continuing operations</b>	\$ (1,758)	\$ (1,758)	\$ (3,237)	\$ (3,237)
Less dividends:				
Common stock	892	892	1,481	1,481
Class B common stock	165	165	275	275
Undistributed losses	\$ (2,815)	\$ (2,815)	\$ (4,993)	\$ (4,993)
Common stock undistributed losses	\$ (2,376)	\$ (2,376)	\$ (4,212)	\$ (4,212)
Class B common stock undistributed losses	(439)	(439)	(781)	(781)
Total undistributed losses	\$ (2,815)	\$ (2,815)	\$ (4,993)	\$ (4,993)
<b>Income from discontinued operations</b>	\$	\$	\$ 45	\$ 45
Less dividends:				
Common stock	892	892	1,481	1,481
Class B common stock	165	165	275	275
Undistributed losses	\$ (1,057)	\$ (1,057)	\$ (1,711)	\$ (1,711)
Common stock undistributed losses	\$ (892)	\$ (892)	\$ (1,443)	\$ (1,443)
Class B common stock undistributed losses	(165)	(165)	(268)	(268)
Total undistributed losses	\$ (1,057)	\$ (1,057)	\$ (1,711)	\$ (1,711)
<b>Net loss</b>	\$ (1,758)	\$ (1,758)	\$ (3,192)	\$ (3,192)
Less dividends:				
Common stock	892	892	1,481	1,481
Class B common stock	165	165	275	275
Undistributed losses	\$ (2,815)	\$ (2,815)	\$ (4,948)	\$ (4,948)
Common stock undistributed losses	\$ (2,376)	\$ (2,376)	\$ (4,174)	\$ (4,174)
Class B common stock undistributed losses	(439)	(439)	(774)	(774)
Total undistributed losses	\$ (2,815)	\$ (2,815)	\$ (4,948)	\$ (4,948)
<b>Denominator for basic and diluted EPS:</b>				
Denominator for basic EPS:				
Common stock weighted average shares	14,856	14,856	14,790	14,790
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				
Dilutive stock options				
Conversion of 8% notes				
Conversion of 7 <sup>3</sup> / <sub>4</sub> % notes				

Denominator for diluted EPS adjusted for weighted average shares and assumed conversions	17,904	17,838
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**Loss from continuing operations per share:**

Common stock	\$ (0.10)	\$ (0.10)	\$ (0.18)	\$ (0.18)
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Class B common stock	\$ (0.09)	\$ (0.09)	\$ (0.17)	\$ (0.17)
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**Income from discontinued operations per share:**

Common stock	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
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Class B common stock	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
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**Net loss per share:**

Common stock	\$ (0.10)	\$ (0.10)	\$ (0.18)	\$ (0.18)
--------------	-----------	-----------	-----------	-----------

Class B common stock	\$ (0.09)	\$ (0.09)	\$ (0.16)	\$ (0.16)
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*Note:* Common stock options that were anti-dilutive and not included in dilutive earnings per common share for the first nine months of fiscal 2009 and fiscal 2008 were 1,784,623 and 1,727,589, respectively.

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### **11. SHARE BASED COMPENSATION**

During the first quarter of fiscal 2007, we adopted SFAS No. 123 (Revised 2004), *Share-Based Payment*, which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. We estimate fair value using the Black-Scholes option-pricing model, which requires assumptions such as expected volatility, risk-free interest rate, expected life, and dividends. Compensation cost is recognized using a graded-vesting schedule over the applicable vesting period or the date on which retirement eligibility is achieved, if shorter (non-substantive vesting period approach). Share-based compensation totaled \$0.2 million and \$0.4 million during the third quarter and first nine months of fiscal 2009, respectively, and \$0.2 million and \$0.5 million during the third quarter and first nine months of 2008, respectively.

### **12. SEGMENT REPORTING**

Based on our interpretation of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS No. 131 ), 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.

Each segment is directed by a Vice President and General Manager who reports to the Chief Executive Officer ( CEO ) or the Executive Vice President of Business Development. The CEO evaluates performance and allocates resources, in part, based on the direct operating contribution of each segment. Direct operating contribution is defined as gross profit less direct selling, general, and administrative expenses.

During the second quarter of fiscal 2009, we renamed our DSG business unit to Canvys. This change from DSG to Canvys signifies its evolution to a market-driven solutions group.

During the first quarter of fiscal 2009, we moved our CRT product line from our Canvys segment to our EDG segment. As a result of implementing a new business plan for Canvys during the third quarter of fiscal 2008, we felt that the CRT product line more closely aligned with the existing EDG business model. Prior period segment information has been restated to reflect this change.



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

	Net Sales	Gross Profit (1)	Direct Operating Contribution (Loss)	Assets (2)
<b><u>Third Quarter Fiscal 2009</u></b>				
RFPD	\$ 80,565	\$ 17,786	\$ 7,856	\$ 124,542
EDG	17,993	5,383	2,028	44,226
Canvys	11,743	636	(2,669)	15,251
Total	\$ 110,301	\$ 23,805	\$ 7,215	\$ 184,019
<b><u>Third Quarter Fiscal 2008</u></b>				
RFPD	\$ 93,415	\$ 20,990	\$ 10,449	\$ 129,517
EDG	25,915	8,375	4,603	48,590
Canvys	18,506	2,316	(1,766)	38,007
Total	\$ 137,836	\$ 31,681	\$ 13,286	\$ 216,114
<b><u>Nine Months Fiscal 2009</u></b>				
RFPD	\$ 270,882	\$ 59,955	\$ 29,153	\$ 124,542
EDG	65,254	20,823	10,451	44,226
Canvys	45,676	9,122	(1,438)	15,251
Total	\$ 381,812	\$ 89,900	\$ 38,166	\$ 184,019
<b><u>Nine Months Fiscal 2008</u></b>				
RFPD	\$ 273,207	\$ 62,457	\$ 30,812	\$ 129,517
EDG	80,765	26,077	14,882	48,590
Canvys	55,880	10,028	(2,778)	38,007
Total	\$ 409,852	\$ 98,562	\$ 42,916	\$ 216,114

- (1) Included in gross profit and direct operating contribution (loss) 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. Included in gross profit and direct operating contribution (loss) during the third quarter and first nine months of fiscal 2008 are inventory write-downs of \$0.9 million in RFPD and \$1.9 million in Canvys.
- (2) Accounts receivable, inventory, and goodwill are identified by segment. Cash, net property plant and equipment, and other assets are not identifiable by segment.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Segment net sales	\$ 110,301	\$ 137,836	\$ 381,812	\$ 409,852
Corporate	15	1,030	2	3,464
<b>Net sales</b>	<b>\$ 110,316</b>	<b>\$ 138,866</b>	<b>\$ 381,814</b>	<b>\$ 413,316</b>
Segment gross profit (1)	\$ 23,805	\$ 31,681	\$ 89,900	\$ 98,562
Manufacturing variances and other costs	(79)	(440)	(277)	(883)
<b>Gross profit</b>	<b>\$ 23,726</b>	<b>\$ 31,241</b>	<b>\$ 89,623</b>	<b>\$ 97,679</b>
Segment direct operating contribution	\$ 7,215	\$ 13,286	\$ 38,166	\$ 42,916
Manufacturing variances and other costs	(79)	(440)	(277)	(883)
Administrative expenses (2) (3)	(11,096)	(13,634)	(32,355)	(37,666)
Gain (loss) on disposal of assets (4)	(5,778)	81	(5,856)	70
<b>Operating income (loss)</b>	<b>\$ (9,738)</b>	<b>\$ (707)</b>	<b>\$ (322)</b>	<b>\$ 4,437</b>

	<b>February 28, 2009</b>	<b>May 31, 2008</b>
Segment assets	\$ 184,019	\$ 199,634
Cash and cash equivalents	32,585	40,042
Other current assets (5)	10,892	11,648
Net property	20,008	28,635
Other assets (6)	4,229	6,276
<b>Total assets</b>	<b>\$ 251,733</b>	<b>\$ 286,235</b>

- (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. Included in gross profit during the third quarter and first nine months of fiscal 2008 are inventory write-downs of \$0.9 million in RFPD and \$1.9 million in Canvys.
- (2) Included in administrative expenses for the third quarter and first nine months of fiscal 2009 is the write-off of \$0.7 million of a long-term note receivable.
- (3) Included in administrative expenses for the third quarter and first nine months of fiscal 2008 is severance expense of \$1.3 million and \$2.1 million, respectively, primarily relating to the refocusing of Canvys.
- (4) Included in (gain) loss on disposal of assets is a loss on disposal for \$5.8 million during the third quarter and first nine months of fiscal 2009, related to the disposal of various modules of enterprise resource management software. See Note 4 Asset Disposals of our unaudited condensed consolidated financial statements for additional discussion on disposal of assets.
- (5) Other current assets include miscellaneous receivables, manufacturing inventories, prepaid expenses, and current deferred income taxes.
- (6) Other assets include investments, assets held for sale, non-current deferred income taxes, and other assets.

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Geographic net sales information is primarily grouped by customer destination into five areas: North America; Asia/Pacific; Europe; Latin America; and Corporate. Europe includes sales to the Middle East and Africa. Net sales to Mexico are included as part of Latin America.

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

	Three Months Ended		Nine Months Ended	
	February 28, 2009	March 1, 2008	February 28, FY 2009	March 1, FY 2008
<b>Net Sales</b>				
North America	\$ 37,949	\$ 55,193	\$ 136,218	\$ 167,033
Asia/Pacific	40,936	40,536	133,705	121,829
Europe	28,511	38,034	98,973	109,951
Latin America	2,958	4,037	11,787	12,571
Corporate	(38)	1,066	1,131	1,932
<b>Total</b>	<b>\$ 110,316</b>	<b>\$ 138,866</b>	<b>\$ 381,814</b>	<b>\$ 413,316</b>
<b>Gross Profit</b>				
North America	\$ 7,121	\$ 14,326	\$ 32,198	\$ 43,913
Asia/Pacific	9,988	9,563	30,675	28,462
Europe	7,278	9,983	25,734	28,620
Latin America	931	1,219	3,762	3,781
Corporate	(1,592)	(3,850)	(2,746)	(7,097)
<b>Total</b>	<b>\$ 23,726</b>	<b>\$ 31,241</b>	<b>\$ 89,623</b>	<b>\$ 97,679</b>

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

**13. FAIR VALUE MEASUREMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 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. We have adopted the provisions of SFAS No. 157 for financial instruments as of June 1, 2008. The adoption of SFAS No. 157 did not materially impact our financial condition, results of operations, or cash flow.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

As of February 28, 2009, we held investments that are required to be measured at fair value on a recurring basis. Our investments (available-for-sale) primarily consist of equity securities of publicly traded companies for which market prices are readily available.

Investments measured at fair value on a recurring basis subject to the disclosure requirements of SFAS No. 157 as of February 28, 2009, were as follows (*in thousands*):

	Level 1	Level 2	Level 3
Equity securities	\$ 256	\$	\$



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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ). SFAS No. 159 allows an entity to irrevocably elect fair value for the initial and subsequent measurement of certain financial instruments and other items that are not currently required to be measured at fair value. When the fair value option is elected and a company chooses to record eligible items at fair value, the company must report unrealized gains and losses on those items in results of operations at each subsequent reporting date. Additionally, the transition provisions of SFAS No. 159 permit a one-time election for existing positions at the adoption date, with a cumulative-effect adjustment included in opening retained earnings. All future changes in fair value would be reported in results of operations. SFAS No. 159 became effective for us June 1, 2008, and we did not elect the fair value option for any eligible items as allowed by SFAS No. 159.

## **14. RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133* ( SFAS 161 ). SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. This statement specifically requires entities to provide enhanced disclosures addressing the following: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. We adopted SFAS 161 during the third quarter of fiscal year 2009. The adoption of SFAS 161 had no impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141-R, *Business Combinations* ( SFAS No. 141-R ) which revises SFAS No. 141, *Business Combinations* ( SFAS No. 141 ). Under SFAS No. 141, organizations utilize the announcement date as the measurement date for the purchase price of the acquired entity. SFAS No. 141-R requires the measurement at the date the acquirer obtains control of the acquiree, generally referred to as the acquisition date. SFAS No. 141-R will have a significant impact on the accounting of transaction costs, restructuring costs as well as the initial recognition of contingent assets and liabilities assumed during a business combination. Under SFAS No. 141-R, adjustments to the acquired entity’s deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of the income tax expense, rather than goodwill. SFAS No. 141-R will become effective for our fiscal year 2010. As the provisions of SFAS No. 141-R are applied prospectively, the impact for us cannot be determined unless a transaction occurs.

In May 2008, the FASB issued FASB Staff Position ( FSP ) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)* ( FSP No. APB 14-1 ), which will change the accounting treatment for convertible securities which the issuer may settle fully or partially in cash. Under FSP No. APB 14-1, cash settled convertible securities will be separated into their debt and equity components. The value assigned to the debt component will be the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability will be recorded as additional paid-in-capital. As a result, the debt will be recorded at a discount reflecting its below market coupon interest rate. The debt will subsequently be accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the income statement. This change in methodology will affect the calculations of net income and earnings per share for many issuers of cash settled convertible securities. FSP No. APB 14-1 will become effective for our fiscal year 2010. We are currently evaluating the impact of the adoption of FSP No. APB 14-1 on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* ( FSP EITF 03-6-1 ). The Staff Position provides that unvested share-based payment

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awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 will become effective for our fiscal year 2010. All prior-period earnings per share data presented must be adjusted retrospectively. We are currently evaluating the impact of the adoption of FSP EITF 03-6-1 on our consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock* ( EITF 07-5 ), which supersedes EITF Issue No. 01-6, *The Meaning of Indexed to a Company's Own Stock* . SFAS No. 133 specifies that a contract issued or held by a company that is both indexed to its own stock and classified in stockholders' equity is not considered a derivative instrument for purposes of applying SFAS No. 133. EITF 07-5 provides further guidance in requiring that both an instrument's contingency exercise provisions and its settlement provisions be evaluated for determining whether the instrument (or embedded feature) is indexed solely to an entity's own stock. EITF 07-5 will become effective for any outstanding or new arrangements for our fiscal year 2010. We are currently evaluating the impact of the adoption of EITF 07-5 on our consolidated financial statements.

In June 2008, the FASB issued EITF Issue No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* ( EITF 08-4 ). The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* that result from EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, and SFAS Issue No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. EITF 08-4 will become effective for our fiscal year 2010. We are currently evaluating the impact of the adoption of EITF 08-4 on our consolidated financial statements.

In December 2008, the FASB issued FSP FAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP FAS 132(R)-1 ), which requires additional disclosures for employers' pension and other postretirement benefit plan assets. As pension and other postretirement benefit plan assets were not included within the scope of SFAS No. 157, FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under SFAS No. 157, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 will become effective for our fiscal year 2010. As FSP FAS 132(R)-1 provides only disclosure requirements, the adoption of this standard will not have a material impact on our financial statements.

## **15. STOCK REPURCHASE PROGRAM**

On January 6, 2009, our Board of Directors approved a share repurchase program authorizing us to purchase up to \$12.6 million of our outstanding common stock. Stock repurchases under this program may be made on the open market or in privately negotiated transactions, depending on factors including market conditions and other factors. During the third quarter of fiscal 2009, we did not repurchase any shares of our common stock under the share repurchase program. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time.

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

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms may, should, could, anticipate, believe, continues, estimate, expect, intend, objective, plan, potential, expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management's current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include the risk factors set forth in Item 1A of our Annual Report on Form 10-K. 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. You should consider carefully the risk factors described in our Annual Report on Form 10-K, in addition to the other information included and incorporated by reference in this Quarterly Report on Form 10-Q.

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

## **INTRODUCTION**

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

### **Business Overview**

**Results of Continuing Operations** an analysis and comparison of our consolidated results of operations for the three and nine month periods ended February 28, 2009, and March 1, 2008, as reflected in our unaudited condensed consolidated statements of operations and comprehensive income (loss).

**Liquidity, Financial Position, and Capital Resources** a discussion of our primary sources and uses of cash for the nine month period ended February 28, 2009, and March 1, 2008, and a discussion of selected changes in our financial position.

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**BUSINESS OVERVIEW**

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, we are committed to a strategy of providing specialized technical expertise and value-added products, or engineered solutions, in response to our customers' needs. These solutions include products which we manufacture or modify and products which are manufactured to our specifications by independent manufacturers under our own private labels. Additionally, 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 data display monitors. 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* (formerly the Display Systems Group or DSG ) 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.

During the second quarter of fiscal 2009, we renamed our DSG business unit to Canvys. This change from DSG to Canvys signifies its evolution to a market-driven solutions group.

During the first quarter of fiscal 2009, we moved our Cathode Ray Tube ( CRT ) product line from our Canvys segment to our EDG segment. As a result of implementing a new business plan for Canvys during the third quarter of fiscal 2008, we felt that the CRT product line more closely aligned with the existing EDG business model. Prior period segment information has been restated to reflect this change.

The recent capital and credit market crisis is adversely affecting the U.S. and global economies. Slower economic growth could lead to lower demand for the products we sell. Lower demand for our products could also lead to lower margins on the products that we sell. In addition, our customers may not be able to pay, or may delay payment of accounts receivable that we are owed. Management believes it has taken steps to mitigate this risk through heightened collection efforts.





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**RESULTS OF CONTINUING OPERATIONS**

**Overview    Three Months Ended February 28, 2009**

Net sales for the third quarter of fiscal 2009 were \$110.3 million, down 20.6%, compared to net sales of \$138.9 million during the third quarter of last year.

Gross margin as a percent of net sales decreased to 21.5% during the third quarter of fiscal 2009, compared to 22.5% during the third quarter of last year. The gross margin percent of 21.5% includes \$2.0 million of additional inventory reserves recorded during the third quarter.

SG&A expenses decreased to \$27.7 million during the third quarter of fiscal 2009, including \$1.2 million of severance expense and \$0.7 million of expense related to the write-off of a note receivable, compared to \$32.0 million during the third quarter of last year.

Operating loss during the third quarter of fiscal 2009 was \$9.7 million, compared to an operating loss of \$0.7 million during the third quarter of last year.

Net loss during the third quarter of fiscal 2009 was \$11.4 million versus a net loss of \$2.2 million during the third quarter of last year.

**Overview    Nine Months Ended February 28, 2009**

Net sales for the first nine months of fiscal 2009 were \$381.8 million, down 7.6%, compared to net sales of \$413.3 million during the first nine months of last year.

Gross margin as a percent of net sales decreased slightly to 23.5% during the first nine months of fiscal 2009, compared to 23.6% during the first nine months of last year.

SG&A decreased to \$84.1 million during the first nine months of fiscal 2009, compared to \$93.3 million during the first nine months of last year.

Operating loss during the first nine months of fiscal 2009 was \$0.3 million, compared to operating income of \$4.4 million during the first nine months of last year.

Net loss during the first nine months of fiscal 2009 was \$1.8 million, compared to a net loss of \$3.2 million during the first nine months of last year.

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

During the third quarter and first nine months of fiscal 2009, consolidated net sales decreased 20.6% and 7.6%, respectively, as all three segments experienced a decline compared to prior year.

Net sales by segment and percent change during the third quarter and first nine months of fiscal 2009 and 2008 were as follows (*in thousands*):

Net Sales

	FY 2009	FY 2008	% Change
<b><u>Third Quarter</u></b>			
RFPD	\$ 80,565	\$ 93,415	(13.8)%
EDG	17,993	25,915	(30.6)%
Canvys	11,743	18,506	(36.5)%
Corporate	15	1,030	
Total	\$ 110,316	\$ 138,866	(20.6)%
<b><u>Nine Months</u></b>			
RFPD	\$ 270,882	\$ 273,207	(0.9)%
EDG	65,254	80,765	(19.2)%
Canvys	45,676	55,880	(18.3)%
Corporate	2	3,464	
Total	\$ 381,814	\$ 413,316	(7.6)%

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Consolidated gross profit decreased during both the third quarter and first nine months of fiscal 2009 as compared to the third quarter and first nine months of fiscal 2008. Consolidated gross margin as a percentage of net sales declined to 21.5% and 23.5% during the third quarter and first nine months of fiscal 2009, respectively, as compared to 22.5% and 23.6% during the third quarter and first nine months of fiscal 2008, respectively, due primarily to sales within our higher-margin businesses, specifically EDG and Canvys, declining at a faster rate than sales for RFPD. We incurred inventory write-downs of \$2.0 million and \$2.8 million during the third quarter of fiscal 2009 and 2008, respectively. EDG and Canvys incurred inventory write-downs of \$0.2 million and \$1.8 million, respectively, during the third quarter of fiscal 2009, due primarily to exiting certain markets and product lines, low-margin customers, and the analog to digital broadcast conversion. RFPD and Canvys incurred inventory write-downs of \$0.9 million and \$1.9 million, respectively, during the third quarter of fiscal 2008, due primarily to the exiting of certain geographic markets and low-margin customers.

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. Corporate gross profit includes certain freight costs and other miscellaneous charges.

Gross profit by segment and percent of segment net sales during the third quarter and first nine months of fiscal 2009 and 2008 were as follows (in thousands):

<b>Gross Profit</b>	<b>FY 2009</b>	<b>% of Net Sales</b>	<b>FY 2008</b>	<b>% of Net Sales</b>
<b><u>Third Quarter</u></b>				
RFPD	\$ 17,786	22.1%	\$ 20,990	22.5%
EDG	5,383	29.9%	8,375	32.3%
Canvys	636	5.4%	2,316	12.5%
Corporate	(79)		(440)	
Total	\$ 23,726	21.5%	\$ 31,241	22.5%
<b><u>Nine Months</u></b>				
RFPD	\$ 59,955	22.1%	\$ 62,457	22.9%
EDG	20,823	31.9%	26,077	32.3%
Canvys	9,122	20.0%	10,028	17.9%
Corporate	(277)		(883)	
Total	\$ 89,623	23.5%	\$ 97,679	23.6%

**RF, Wireless & Power Division**

RFPD net sales decreased 13.8% and 0.9% to \$80.6 million and \$270.9 million during the third quarter and first nine months of fiscal 2009, respectively, from \$93.4 million and \$273.2 million during the third quarter and first nine months of fiscal 2008, respectively. The decline in net sales, which was the result of the weakened economic conditions, included declines in both the net sales of our network access and passive/interconnect products, partially offset by an increase in infrastructure products. Infrastructure net sales increased 1.2% and 9.4% to \$24.9 million and \$77.0 million during the third quarter and first nine months of fiscal 2009, respectively, from \$24.6 million and \$70.4 million during the third quarter and first nine months of fiscal 2008, respectively. The net sales growth for infrastructure products was in Asia/Pacific, which was due primarily to the reorganization of the mobile telecom industry in China, which included the deployment of the next infrastructure build-out of the Time Division-Synchronous Code Division Multiple Access ( TD-SCDMA ). Gross margin as a percent of net sales decline to 22.1% during both the third quarter and first nine months of fiscal 2009 from 22.5% and 22.9% during the third quarter and first nine months of fiscal 2008, respectively. The decline in gross margin as a percent of net sales was due primarily to the lower margins generated from the TD-SCDMA project in China. During the third quarter of fiscal 2008, RFPD incurred inventory write-downs of \$0.9 million.

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### ***Electron Device Group***

EDG net sales decreased 30.6% and 19.2% to \$18.0 million and \$65.3 million during the third quarter and first nine months of fiscal 2009, respectively, from \$25.9 million and \$80.8 million during the third quarter and first nine months of fiscal 2008, respectively, due primarily to a decline in semiconductor fabrication equipment products. The semiconductor fabrication equipment industry has experienced an overall decline during the past couple of years, in addition to the weakening global economy. In terms of geographic regions, North America experienced a decline in tube sales, during both the third quarter and first nine months of fiscal 2009, primarily due to the conversion from analog to digital television which is scheduled to take place in June 2009. Gross margin as a percent of net sales decreased to 29.9% and 31.9% during the third quarter and first nine months of fiscal 2009, respectively, as compared to 32.3% during both the third quarter and first nine months of fiscal 2008. The decline in gross margin as a percentage of net sales for both periods was due primarily to \$0.2 million of inventory write-downs during the third quarter of fiscal 2009 related to the broadcast conversion from analog to digital and higher levels of unabsorbed manufacturing costs.

### ***Canvys***

Canvys net sales decreased 36.5% and 18.3% to \$11.7 million and \$45.7 million during the third quarter and first nine month of fiscal 2009, respectively, from \$18.5 million and \$55.9 million during the third quarter and first nine months of fiscal 2008, respectively, due primarily to a decline in medical imaging and digital signage products. The decline of both product lines was due primarily to lower capital investments as a result of the weakening global economy. During the third quarter of fiscal 2008, Canvys implemented a new business plan, part of which included exiting unprofitable market segments and the distribution of low margin business, and realigning sales and marketing operations for better utilization. Gross margin declined to 5.4% during the third quarter of fiscal 2009 from 12.5% during the third quarter of fiscal 2008, due primarily to inventory write-downs. The inventory write-downs of \$1.8 million (15.4% of net sales) during the third quarter of fiscal 2009 had a larger impact on our gross margin percentage as compared to the inventory write-downs of \$1.9 million (10.3% of net sales) during the third quarter of fiscal 2008, due primarily to the 36.5% decline in net sales. Gross margin increased to 20.0% during the first nine months of fiscal 2009 from 17.9% during the first nine months of fiscal 2008, which was due primarily to shifts in customer and geographic mix.

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

Selling, general, and administrative expenses ( SG&A ) decreased during the third quarter and first nine months of fiscal 2009 to \$27.7 million and \$84.1 million, respectively, from \$32.0 million and \$93.3 million during the third quarter and first nine months

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of fiscal 2008, respectively. The decrease in SG&A expense during the third quarter and first nine months of fiscal 2009 was due primarily to a decline in consulting, employee-related (including severance), travel, and facility expenses, partially offset by an increase in bad debt expense and the write-off of a note receivable. SG&A as a percent of net sales increased to 25.1% of net sales during the third quarter of fiscal 2009, as compared with 23.1% during the third quarter of fiscal 2008, which was due primarily to the 20.6% decline in net sales during the third quarter. SG&A as a percentage of net sales decreased to 22.0% during the first nine months of fiscal 2009, as compared with 22.6% of net sales during the first nine months of fiscal 2008.

### ***(Gain) Loss on disposal of assets***

(Gain) loss on disposal of assets was a loss of \$5.8 million and \$5.9 million during the third quarter and first nine months of fiscal 2009, respectively, as compared to a gain of \$0.1 million during both the third quarter and first nine months of fiscal 2008. See Note 4 Asset Disposals of our unaudited condensed consolidated financial statements for additional discussion on disposal of assets.

### ***Other (Income) Expense***

Other (income) expense was an expense of \$1.1 million during the third quarter of fiscal 2009 as compared to an expense of \$1.2 million during the third quarter of fiscal 2008. Other (income) expense was \$0.4 million of income during the first nine months of fiscal 2009 as compared to an expense of \$6.6 million the first nine months of fiscal 2008, respectively. The change to income from expense during the first nine months of fiscal 2009 was due primarily to favorable changes in foreign currency exchange rates, a gain related to the retirement of a portion of our long-term debt, and a decrease in interest expense. Other (income) expense included a foreign exchange gain of \$2.6 million during the first nine months of fiscal 2009 as compared to a foreign exchange loss of \$1.6 million during the first nine months of fiscal 2008. The first nine months of fiscal 2009 included a gain of \$0.8 million related to the retirement of \$3.3 million of our 8% notes. See Note 8 Debt of our unaudited condensed consolidated financial statements for additional discussion on the retirement. Interest expense decreased to \$1.1 million and \$3.5 million during the third quarter and first nine months of fiscal 2009, respectively, as compared to \$1.4 million and \$5.6 million during the third quarter and first nine months of fiscal 2008, respectively. See Note 8 Debt of our unaudited condensed consolidated financial statements for additional discussion on interest expense.

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

The effective income tax rate for the third quarter and first nine months of fiscal 2009 was a provision of 5.2% and 1806.8%, respectively, as compared with a provision of 14.1% and 47.7% for the third quarter and first nine months of fiscal 2008, respectively. The difference between the effective tax rates as compared to the U.S. federal statutory rate of 34% primarily results from our geographical distribution of taxable income or losses and valuation allowances related to net operating losses. For the first nine months of fiscal 2009, we incurred tax expense due to an increase in valuation allowances related to an increase in net operating losses of approximately \$7.0 million. We realized a tax benefit from the reduction in tax reserves of approximately \$1.0 million, including interest and penalties. The tax provision for the first nine months of fiscal 2009 includes \$0.6 million related to prior years 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 2002. Our primary foreign tax jurisdictions are the United Kingdom, Germany, Singapore, and the Netherlands. We have tax years open in Singapore beginning in fiscal year 2002; in the Netherlands, Germany and the U.S. beginning in fiscal year 2004; and in the United Kingdom beginning in fiscal year 2006.

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As of February 28, 2009, our worldwide liability for uncertain tax positions, excluding interest and penalties, is \$4.4 million as compared to \$5.0 million as of May 31, 2008. 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 in the three months ended February 28, 2009, primarily due to closure 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 \$1.0 million due to the expiration of various statutes of limitations within the next 12 months.

### ***Net Income (Loss) and Per Share Data***

Net loss during the third quarter of fiscal 2009 was \$11.4 million, or \$0.65 per diluted common share and \$0.58 per Class B diluted common share as compared to a net loss of \$2.2 million during the third quarter of fiscal 2008, or \$0.12 per diluted common share and \$0.11 per Class B diluted common share. Net loss during the first nine months of fiscal 2009 was \$1.8 million, or \$0.10 per diluted common share and \$0.09 per Class B diluted common share as compared with a net loss of \$3.2 million during the first nine months of fiscal 2008, or \$0.18 per diluted common share and \$0.16 per Class B diluted common share.

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

We have financed our growth and cash needs largely through income from operations, borrowings under the revolving credit facilities, issuance of convertible senior subordinated notes, and sale of assets. Liquidity is reduced by working capital requirements, debt service, capital expenditures, dividends, and business acquisitions. Liquidity is increased by proceeds from borrowings, disposition of businesses and assets, and improved working capital management.

Cash and cash equivalents were \$32.6 million as of February 28, 2009, as compared to \$40.0 million as of May 31, 2008.

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

Cash provided by operating activities during the first nine months of fiscal 2009 was \$1.6 million, due primarily to lower accounts receivable, partially offset by higher inventory balances, lower accounts payable and lower accrued liability balances. The decline in accounts receivable balances of \$8.7 million, excluding the impact of foreign currency exchange of \$8.2 million, during the first nine months of fiscal 2009 was due primarily to a decline in sales volume. The increase in inventory balances of \$6.2 million, excluding the impact of foreign currency exchange of \$5.0 million, during the first nine months of fiscal 2009 was due primarily to inventory purchased during the first half of the fiscal year for anticipated future sales growth, partially offset by write-downs of \$2.0 million. The decrease in accounts payable balances of \$2.8 million, excluding the impact of foreign currency exchange of \$2.1 million, during the first nine months of fiscal 2009 was due primarily to a reduction in inventory purchased during the third quarter of fiscal 2009. The decline in accrued liability balances of \$3.7 million, excluding the impact of foreign currency exchange of \$0.8 million, during the first nine months of fiscal 2009 was due primarily to the timing and payment of accrued payroll.

Cash provided by operating activities during the first nine months of fiscal 2008 was \$8.3 million, due primarily to lower inventory, lower accounts receivable, and higher accounts payable balances, partially offset by lower accrued liability balances. The decline in inventory balances of \$8.7 million, excluding the impact of foreign currency exchange of \$5.8 million, during the first nine months of fiscal 2008 was due primarily to the implementation of stricter purchasing discipline and write-downs of \$2.8 million. The decline in accounts receivable balances of \$7.8 million, excluding the impact of foreign currency exchange of \$5.9 million, during the

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first nine months of fiscal 2008 was due primarily to improved cash collections. The increase in accounts payable balances of \$1.7 million, excluding the impact of foreign currency exchange of \$1.5 million, during the first nine months of fiscal 2008 was due primarily to negotiating payment terms with many of our vendors. The decline in accrued liabilities balances of \$5.9 million, excluding the impact of foreign exchange of \$0.3 million, during the first nine months of fiscal 2008 was due primarily to the timing of payments of interest on long-term debt.

*Cash Flows from Investing Activities*

Net cash used by investing activities was \$0.7 million during the first nine months of fiscal 2009, due primarily to capital expenditures of \$0.9 million and partially offset by proceeds from the sales of assets of \$0.2 million.

Net cash used in investing activities was \$3.1 million during the first nine months of fiscal 2008, due primarily to capital expenditures of \$4.2 million for information technology projects and building improvements, partially offset by proceeds from the sale of assets of \$1.0 million.

*Cash Flows from Financing Activities*

Net cash used in financing activities of \$3.4 million during the first nine months of fiscal 2009 and net cash provided by financing activities of \$4.5 million during the first nine months of fiscal 2008, are summarized in the following table (*in thousands*):

	<b>Nine Months Ended</b>	
	<b>February 28, 2009</b>	<b>March 1, 2008</b>
Net debt borrowings on revolving credit agreement	\$	\$ 10,000
Net debt payments on multi-currency revolving credit agreement ( credit agreement )		(65,711)
Retirement of long-term debt	(2,364)	
Use of restricted cash to pay down credit agreement		61,899
Cash dividends paid	(1,057)	(1,756)
Other	5	45
<b>Cash provided by (used in) financing activities</b>	<b>\$ (3,416)</b>	<b>\$ 4,477</b>

As of February 28, 2009 we maintained \$52.4 million in long-term debt in the form of two series of convertible notes. On November 7, 2008, we retired \$3.3 million of the 8% notes at approximately 71% of par value, which resulted in a gain of \$0.8 million, net of deferred financing costs of \$0.1 million. As the revolving credit agreement allows us to retire up to \$15.0 million of our outstanding notes, we did not need to obtain a waiver from our lending group to permit the retirement of \$3.3 million of the 8% notes. The retirement was financed through the use of cash available as of November 7, 2008.

We entered into a revolving credit agreement on July 27, 2007, which included a Euro sub-facility of \$15.0 million and a Singapore sub-facility of \$5.0 million. Pursuant to an amendment to the revolving credit agreement entered into on February 29, 2008, the Euro sub-facility and Singapore sub-facility individual limits were increased to \$20.0 million each; however, the total amount of the combined Euro sub-facility and Singapore sub-facility is limited to \$25.0 million. The U.S. facility is reduced by the amounts drawn on the Euro sub-facility and Singapore sub-facility, maintaining a total capacity of \$40.0 million on the revolving credit agreement. This revolving credit agreement expires in July 2010 and bears interest at applicable LIBOR, SIBOR, or prime rates plus a margin varying with certain quarterly borrowings under the revolving credit agreement. This revolving credit agreement is secured by a lien on our U.S. assets and also contains a financial covenant requiring us to maintain a leverage ratio of less than 2.0 to 1.0. Pursuant to an amendment to the revolving credit agreement entered into on November 29, 2007, the leverage ratio was increased to 3.0 to 1.0 for the fiscal quarters ended December 1, 2007, and March 1, 2008. The commitment fee related to the revolving credit



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agreement is 0.25% per annum payable quarterly on the average daily unused portion of the aggregate commitment. As of February 28, 2009, there were no amounts outstanding under the revolving credit agreement. Outstanding letters of credit were approximately \$0.1 million and we also had \$1.1 million reserved for usage on our commercial credit card program, leaving an unused line of \$38.8 million as of February 28, 2009. Based on our loan covenants, actual available credit as of February 28, 2009, was \$40.0 million.

Pursuant to an amendment to the revolving credit agreement entered into on July 29, 2008, the definition of the leverage ratio was modified to exclude the goodwill impairment charge in the calculation of adjusted earnings before interest, taxes, depreciation, and amortization ( EBITDA ), for the fiscal year ended May 31, 2008. We were in compliance with our loan covenants as of May 31, 2008, without this amendment to our revolving credit agreement.

We believe that the existing sources of liquidity, including current cash, as well as cash provided by operating activities, supplemented as necessary with funds available under credit arrangements, will provide sufficient resources to meet known capital requirements and working capital needs for the fiscal year ending May 30, 2009.

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

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

Certain operations, assets, and liabilities of ours are denominated in foreign currencies subjecting us to foreign currency exchange risk. In addition, some of our debt financing varies with market rates exposing us to the market risk from changes in interest rates. In order to provide the user of these financial statements guidance regarding the magnitude of these risks, the Securities and Exchange Commission requires us to provide certain quantitative disclosures based upon hypothetical assumptions. Specifically, these disclosures require the calculation of the effect of a 10% increase in market interest rates and an unfavorable 10% change in the U.S. dollar against foreign currencies on the reported net earnings and financial position. We believe that there were no material changes in our market risk since our fiscal year ended May 31, 2008. For an additional description of our market risk, see Item 7A Quantitative and Qualitative Disclosures about Market Risk Risk Management and Market Sensitive Financial Instruments in our Annual Report on Form 10-K for the fiscal year ended May 31, 2008.

### **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) as of February 28, 2009. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. Based upon this evaluation, the Chief Executive Officer and the 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 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in several pending judicial proceedings concerning matters arising in the ordinary course of our business. We cannot predict the outcome of any pending legal matters, and an unfavorable outcome of any one or more of these matters could have a material adverse impact on our business, results of operations, cash flows, and financial position.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K for the year ended May 31, 2008, which could materially affect our business, financial condition or future results. There have been no material changes in the risk factors from those described in our Annual Report, except as set forth below:

*Current worldwide economic conditions may adversely affect our business, operating results and financial condition.*

As widely reported, global financial markets have been experiencing extreme disruptions in recent months, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There can be no assurance that there will not be further deterioration in the global financial markets and decreased consumer confidence in economic conditions. We are unable to predict the likely duration and severity of the current disruptions in the financial markets and the adverse global economic conditions, and if the current uncertainty continues or economic conditions further deteriorate, our business, operating results and financial condition could be materially and adversely affected.

**ITEM 5. OTHER INFORMATION**

**Results of Operation and Financial Condition and Declaration of Dividend**

On April 8, 2009, we issued a press release reporting results for our third quarter ended February 28, 2009, and the declaration of a cash dividend. A copy of the press release is furnished as Exhibit 99.1 to this Form 10-Q and incorporated by reference herein.

**ITEM 6. EXHIBITS**

See exhibit index which is incorporated by reference herein.

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**SIGNATURES**

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

RICHARDSON ELECTRONICS, LTD.

Date: April 9, 2009

By: /s/ Kathleen S. Dvorak  
Kathleen S. Dvorak  
Chief Financial Officer  
(on behalf of the Registrant and as Principal Financial Officer)

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**Exhibit Index**

(c) EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of the Company, incorporated by reference to Appendix B to the Proxy Statement / Prospectus dated November 13, 1986, incorporated by reference to the Company's Registration Statement on Form S-4.
3.2	Amended and Restated By-Laws of the Company, incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 29, 2008.
10.1	Richardson Electronics, Ltd. Employee Stock Ownership Plan, amended and restated effective June 1, 2002.
31.1	Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
31.2	Certification of Kathleen S. Dvorak pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed pursuant to Part I).
99.1	Press release, dated April 8, 2009.