

RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
April 12, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 3, 2007

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.)*

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

(Address of principal executive offices)

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 10, 2007, there were outstanding 14,564,199 shares of Common Stock, \$0.05 par value, inclusive of 1,249,256 shares held in treasury, 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.****Condensed Consolidated Balance Sheets***(in thousands, except per share amounts)*

	Unaudited March 3, 2007	June 3, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,363	\$ 17,010
Receivables, less allowance of \$2,318 and \$2,142	115,474	115,733
Inventories	131,007	117,320
Prepaid expenses	7,635	3,739
Deferred income taxes	1,057	1,527
Total current assets	267,536	255,329
Non-current assets:		
Property, plant and equipment, net	31,647	32,357
Goodwill	13,179	13,068
Other intangible assets, net	2,016	2,413
Non-current deferred income taxes	1,335	1,300
Assets held for sale	1,243	1,018
Other assets	1,831	3,814
Total non-current assets	51,251	53,970
Total assets	\$ 318,787	\$ 309,299
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 56,407	\$ 52,494
Accrued liabilities	28,479	30,588
Current portion of long-term debt	16	14,016
Total current liabilities	84,902	97,098
Non-current liabilities:		
Long-term debt, less current portion	133,433	112,792
Non-current liabilities	1,803	1,169
Total non-current liabilities	135,236	113,961
Total liabilities	220,138	211,059
Commitments and contingencies		

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Stockholders equity		
Common stock, \$0.05 par value; issued 15,813 shares at March 3, 2007 and 15,663 shares at June 3, 2006	791	783
Class B common stock, convertible, \$0.05 par value; issued 3,048 shares at March 3, 2007 and 3,093 shares at June 3, 2006	152	155
Preferred stock, \$1.00 par value, no shares issued		
Additional paid-in-capital	118,536	119,149
Common stock in treasury, at cost, 1,249 shares at March 3, 2007 and 1,261 shares at June 3, 2006	(7,404)	(7,473)
Accumulated deficit	(18,028)	(19,048)
Accumulated other comprehensive income	4,602	4,674
Total stockholders equity	98,649	98,240
Total liabilities and stockholders equity	\$ 318,787	\$ 309,299

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 3,	March 4,	March 3,	March 4,
	2007	2006	2007	2006
Statements of Operations				
Net sales	\$ 160,141	\$ 152,128	\$ 491,702	\$ 466,110
Cost of sales	121,093	115,039	370,756	350,983
Gross profit	39,048	37,089	120,946	115,127
Selling, general, and administrative expenses	35,877	35,502	107,386	100,766
(Gain) loss on disposal of assets	(2,418)	75	(2,098)	(87)
Operating income	5,589	1,512	15,658	14,448
Other (income) expense:				
Interest expense	2,706	2,479	8,486	7,076
Investment income	(71)	(117)	(885)	(248)
Foreign exchange (gain) loss	110	(1,611)	315	2,071
Retirement of long-term debt expenses			2,540	
Other, net	15	54	74	229
Total other expense	2,760	805	10,530	9,128
Income before income taxes	2,829	707	5,128	5,320
Income tax provision	1,792	1,853	4,108	4,353
Net income (loss)	\$ 1,037	\$ (1,146)	\$ 1,020	\$ 967
Net income (loss) per share basic:				
Common stock	\$ 0.06	\$ (0.07)	\$ 0.06	\$ 0.06
Common stock average shares outstanding	14,559	14,328	14,493	14,310
Class B common stock	\$ 0.05	\$ (0.06)	\$ 0.05	\$ 0.05
Class B common stock average shares outstanding	3,048	3,093	3,048	3,093
Net income (loss) per share diluted:				
Common stock	\$ 0.06	\$ (0.07)	\$ 0.06	\$ 0.06
Common stock average shares outstanding	17,732	14,328	17,638	17,476
Class B common stock	\$ 0.05	\$ (0.06)	\$ 0.05	\$ 0.05

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Class B common stock average shares outstanding	3,048	3,093	3,048	3,093
Dividends per common share	\$ 0.040	\$ 0.040	\$ 0.120	\$ 0.120
Dividends per Class B common share	\$ 0.036	\$ 0.036	\$ 0.108	\$ 0.108
Statements of Comprehensive Income (Loss)				
Net income (loss)	\$ 1,037	\$ (1,146)	\$ 1,020	\$ 967
Foreign currency translation, net of income tax effect	(50)	772	255	2,151
Fair value adjustments on investments, net of income tax effect	7	99	(483)	175
Comprehensive income (loss)	\$ 994	\$ (275)	\$ 792	\$ 3,293

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 3,	March 4,	March 3,	March 4,
	2007	2006	2007	2006
Operating activities:				
Net income (loss)	\$ 1,037	\$ (1,146)	\$ 1,020	\$ 967
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,538	1,583	4,655	4,648
(Gain) loss on disposal of assets	(2,418)	75	(2,098)	(87)
Retirement of long-term debt expenses			2,540	
Deferred income taxes	646	(1,239)	417	(1,723)
Receivables	1,708	932	5,016	(1,031)
Inventories	(6,966)	(762)	(14,797)	(7,265)
Accounts payable and accrued liabilities	(1,978)	(1,329)	(6,517)	7,914
Other liabilities	492	68	606	(264)
Other	304	(407)	(301)	1,463
Net cash provided by (used in) operating activities	(5,637)	(2,225)	(9,459)	4,622
Investing activities:				
Capital expenditures	(1,991)	(1,492)	(4,716)	(4,229)
Proceeds from sale of assets	3,066		3,109	274
Business acquisitions, net of cash acquired				(6,833)
Proceeds from sales of available-for-sale securities		554	3,682	1,290
Purchases of available-for-sale securities		(554)	(182)	(1,290)
Net cash provided by (used in) investing activities	1,075	(1,492)	1,893	(10,788)
Financing activities:				
Proceeds from borrowings	64,600	104,801	202,011	194,898
Payments on debt	(51,840)	(96,691)	(181,650)	(190,874)
Proceeds from issuance of common stock	35	1	755	284
Cash dividends	(692)	(685)	(2,071)	(2,051)
Payments on retirement of long-term debt	(8,700)		(15,915)	
Other	(16)	(327)	(674)	(1,665)
Net cash provided by financing activities	3,387	7,099	2,456	592
Effect of exchange rate changes on cash and cash equivalents	(72)	554	463	(15)
Increase (decrease) in cash and cash equivalents	(1,247)	3,936	(4,647)	(5,589)
Cash and cash equivalents at beginning of period	13,610	14,776	17,010	24,301
Cash and cash equivalents at end of period	\$ 12,363	\$ 18,712	\$ 12,363	\$ 18,712

See notes to condensed consolidated financial statements.

Table of Contents**RICHARDSON ELECTRONICS, LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****(in thousands, except per share amounts and except where indicated)****Note A Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles 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 United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results of interim periods have been made and such adjustments were of a normal and recurring nature. The results of operations and cash flows for the three-month and nine-month periods ended March 3, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 2, 2007.

Richardson Electronics, Ltd. s (the Company) fiscal quarter ends on the Saturday nearest the end of the quarter ending month. The first nine months of fiscal 2007 contained 39 weeks, while the first nine months of fiscal 2006 contained 40 weeks. The additional week occurred in the first quarter of fiscal 2006.

The financial information contained in this report should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended June 3, 2006.

Note B Investment in Marketable Equity Securities

The Company s 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. Proceeds from the sale of the securities were \$3,682 during the first nine months of fiscal 2007. There were no sales of securities during the third quarter of fiscal 2007. During the third quarter and first nine months of fiscal 2006, proceeds from the sale of the securities were \$554 and \$1,290, respectively. During the second quarter of fiscal 2007, the Company retained \$3,500 of the proceeds from the sale of securities, while in prior periods all proceeds from the sale of securities were reinvested. Gross realized gains on those sales were \$724 during the first nine months of fiscal 2007. Gross realized gains on security sales for the third quarter and first nine months of fiscal 2006 were \$84 and \$185, respectively. Gross realized losses on security sales for the first nine months of fiscal 2007 were \$64. During the third quarter and first nine months of fiscal 2006, gross realized losses on security sales were \$46 and \$89, respectively. Net unrealized holding gains of \$11 and \$178 for the third quarter and first nine months of fiscal 2007, respectively, and net unrealized holding gains of \$160 and \$283 for the same periods of fiscal 2006, have been included in accumulated comprehensive income for fiscal 2007 and 2006.

The following table is the disclosure under Statement of Financial Accounting Standards (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:

Description of Securities	Marketable Security Holding Length				Total	
	Less Than 12 Months		More Than 12 Months		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
March 3, 2007						
Common Stock	\$	\$	\$	\$	\$	\$
June 3, 2006						
Common Stock	\$ 623	\$ 34	\$ 158	\$ 17	\$ 781	\$ 51

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On April 5, 2007, the Company sold real estate and a building located in the United Kingdom for \$1,882. The Company will record a pre tax gain on sale of approximately \$1,400 during the fourth quarter of fiscal 2007 with respect to the sale of this property.

On December 29, 2006, the Company sold approximately 1.5 acres of real estate and a building located in Geneva, Illinois for \$3,050. The Company recorded a gain of \$2,473 during the third quarter of fiscal 2007 with respect to the sale of this property.

In July 2006, the Company offered to sell a building located in Brazil for \$913. The Company does not anticipate recording a gain or loss on the sale of the building. The sale of the building is expected to close during the next year, however, the Company cannot give any assurance as to the actual timing or successful completion of the transaction.

Note D Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually or more frequently if events or circumstances indicate that goodwill might be impaired. The Company performs its annual goodwill impairment assessment as of the end of the third quarter of the current fiscal year. The table below provides changes in carrying value of goodwill by reportable segment, which includes RF, Wireless & Power Division (RFPD), Electron Device Group (EDG), Burttek Systems, formerly Security Systems Division (SSD/Burttek), and Display Systems Group (DSG):

	Goodwill Reportable Segments				Total
	RFPD	EDG	SSD/ Burttek	DSG	
Balance at June 3, 2006	\$ 252	\$ 893	\$ 1,812	\$ 10,111	\$ 13,068
Foreign currency translation	7	9	(106)	201	111
Balance at March 3, 2007	\$ 259	\$ 902	\$ 1,706	\$ 10,312	\$ 13,179

The following table provides changes in carrying value of other intangible assets not subject to amortization:

	Other Intangible Assets Not Subject to Amortization Reportable Segments				Total
	RFPD	EDG	SSD/ Burttek	DSG	
Balance at June 3, 2006	\$	\$ 9	\$ 321	\$	\$ 330
Reclass		(9)	9		
Foreign currency translation			(19)		(19)
Balance at March 3, 2007	\$	\$	\$ 311	\$	\$ 311

Intangible assets subject to amortization, as well as amortization expense are as follows:

	Intangible Assets Subject to Amortization			
	March 3, 2007		June 3, 2006	
	Gross Amounts	Accumulated Amortization	Gross Amounts	Accumulated Amortization
Deferred financing costs	\$ 4,539	\$ 2,834	\$ 4,639	\$ 2,559
Patents and trademarks	478	478	478	475

Total	\$ 5,017	\$ 3,312	\$ 5,117	\$ 3,034
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Deferred financing costs decreased during the first nine months of fiscal 2007 primarily due to the write-off of previously capitalized deferred financing costs of \$625 in the first quarter of fiscal 2007, related to the Company entering into agreements with certain holders to purchase \$14,000 of the Company's 8% convertible senior subordinated notes (8% notes). This decrease was partially offset by additional deferred financing costs associated with the Company entering into the fourth amendment of the Company's multi-currency revolving credit agreement (credit agreement) in the first quarter of fiscal 2007.

Amortization expense for the three-month and nine-month periods ended March 3, 2007 and March 4, 2006 was as follows:

	Amortization Expense for Third Quarter		Amortization Expense for Nine Months	
	FY 2007	FY 2006	FY 2007	FY 2006
Deferred financing costs	\$ 143	\$ 129	\$ 364	\$ 245
Patents and trademarks			3	1
Total	\$ 143	\$ 129	\$ 367	\$ 246

The amortization expense associated with the intangible assets subject to amortization is expected to be \$488, \$495, \$495, \$329, \$209, and \$53 in fiscal 2007, 2008, 2009, 2010, 2011, and 2012, respectively. The weighted average number of years of amortization expense remaining is 4.31.

Note E Restructuring and Severance Charges

The Company implemented a global restructuring plan during the first quarter of fiscal 2007 (2007 Restructuring Plan). The 2007 Restructuring Plan is intended to reduce corporate and administrative expense, decrease the number of warehouses, and streamline much of the entire organization. During fiscal 2007, the Company plans to implement a more tax-effective supply chain structure for Asia/Pacific and Europe, restructure its Latin American operations, and reduce its total workforce, including the elimination and restructuring of layers of management.

As a result of the Company's 2007 Restructuring Plan, restructuring charges of \$1,491 were recorded in selling, general, and administrative expenses (SG&A) during the first nine months of fiscal 2007. Severance costs of \$175 and \$648 were paid during the third quarter and first nine months of fiscal 2007, respectively. During the third quarter and first nine months of fiscal 2007, the employee severance costs were adjusted \$37 and \$57, respectively, decreasing SG&A due to the difference between estimated severance costs and actual payouts. The remaining balance payable during fiscal 2007 has been included in accrued liabilities. As of March 3, 2007, the following table depicts the amounts associated with the activity related to the 2007 Restructuring Plan by reportable segment:

	Restructuring Liability June 3,	For the nine months ended March 3, 2007			Restructuring Liability March 3,
	2006	Reserve Recorded	Payment	Adjustment to Reserve	2007
2007 Restructuring Plan					
Employee severance costs:					
RFPD	\$	\$ 432	\$ (109)	\$	\$ 323
EDG		57	(17)		40
SSD/Burtek		129	(112)	2	19
DSG		67	(67)		
Corporate		806	(343)	(59)	404
Total	\$	\$ 1,491	\$ (648)	\$ (57)	\$ 786

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As a result of the Company's fiscal 2005 restructuring initiative (2005 Restructuring Plan), a restructuring charge, including severance and lease termination costs of \$2,152, was recorded in SG&A in the third quarter of fiscal 2005. During the fourth quarter of fiscal 2005, the employee severance and related costs were adjusted, resulting in a \$183 decrease in SG&A due to the difference between estimated severance costs and the actual payouts. During fiscal 2006, the employee severance and related costs were adjusted \$123, decreasing SG&A due to the difference between estimated severance costs and actual payouts. Severance costs of \$724 and \$1,108 were paid in fiscal 2006 and 2005, respectively. During the first nine months of fiscal 2007, severance costs of \$14 were paid. Terminations affected over 60 employees across various business functions, operating units, and geographic regions. As of March 3, 2007, the following table depicts the amounts associated with the activity related to the 2005 Restructuring Plan by reportable segment:

	Restructuring Liability	For the nine months ended March 3, 2007			Restructuring Liability
	June 3, 2006	Reserve Recorded	Payment	Adjustment to Reserve	March 3, 2007
2005 Restructuring Plan					
Employee severance and related costs:					
Corporate	\$ 14	\$	\$ (14)	\$	\$
Total	\$ 14	\$	\$ (14)	\$	\$

Note F Warranties

The Company offers warranties for specific products it manufactures. The Company also provides extended warranties for some products it sells that lengthen the period of coverage specified in the manufacturer's original warranty. Terms generally range from one to three years.

The Company estimates the cost to perform under its warranty obligation and recognizes this estimated cost at the time of the related product sale. The Company reports this expense as an element of cost of sales in its Condensed Consolidated Statements of Operations. Each quarter, the Company assesses actual warranty costs incurred, on a product-by-product basis, as compared to its estimated obligation. The estimates with respect to new products are based generally on knowledge of the products, are extrapolated to reflect the extended warranty period, and are refined each quarter as better information with respect to warranty experience becomes known.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. The warranty reserves are determined based on known product failures, historical experience, and other currently available evidence.

Changes in the warranty reserve for the first nine months ended March 3, 2007 were as follows:

	Warranty Reserve
Balance at June 3, 2006	\$ 836
Accruals for products sold	479
Utilization	(432)
Adjustment	(386)
Balance at March 3, 2007	\$ 497

During the second quarter of fiscal 2003, DSG provided a three-year warranty on some of its products. As a result of lower than anticipated failure rates and lower sales volume of products with this warranty feature, reserve adjustments of \$386 were recorded during the first nine months of fiscal 2007.

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Long-term debt consists of the following:

	March 3, 2007	June 3, 2006
7 ³ / ₄ % notes, due December 2011	\$ 44,683	\$ 44,683
8% notes, due June 2011	11,000	25,000
Multi-currency revolving credit agreement, due October 2009 (7.20% at March 3, 2007)	77,743	57,089
Other	23	36
Total debt	133,449	126,808
Less: current portion	(16)	(14,016)
Long-term debt		