

RICHARDSON ELECTRONICS LTD/DE  
Form 10-Q/A  
January 30, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q/A**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended **August 30, 2003**

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

*(IRS Employer Identification Number)*

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

*(Address of principal executive offices)*

60147

*(Zip code)*

(630) 208-2200

*(Registrant's telephone number, including area code)*

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of September 29, 2003, there were outstanding 12,470,109 shares of Common Stock, \$.05 par value, inclusive of 1,505,245 shares held in treasury, and 3,206,812 shares of Class B Common Stock, \$.05 par value, which are convertible into Common Stock on a share-for-share basis.

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**EXPLANATORY NOTE**

Richardson Electronics, LTD (the "Company") is filing this amendment to its Quarterly Report on Form 10-Q for the quarterly period ended August 30, 2003, originally filed October 14, 2003, to reflect certain adjustments to restate the Company's financial statements.

The Company identified an accounting error that occurred in a foreign subsidiary, which affected previously reported interest expense for the prior seven quarters beginning quarter ended February 29, 2002. The correction of the error, which aggregated to \$738,000, is presented as a restatement of these prior periods. The restatement decreased net income before cumulative effect of accounting change for the first quarter of fiscal 2004 and 2003 from \$506,000 and \$284,000 to \$392,000 and \$166,000, respectively. This Form 10-Q/A contains changes to the Condensed Consolidated Balance Sheets, the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Cash Flows, as well as the Notes to Condensed Consolidated Financial Statements, to reflect this restatement. The Company has filed an amended Form 10-K/A for fiscal 2003, which increased interest expense reported in those periods.

This amendment to the original Form 10-Q amends and restates the original Form 10-Q in its entirety, but does not reflect events occurring after the original filing of the Form 10-Q. All information contained in this amendment and the original Form 10-Q is subject to updating and supplementing as provided in the periodic reports filed subsequent to the original filing date with the Securities and Exchange Commission.

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**RICHARDSON ELECTRONICS, LTD**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	As of	
	August 30, 2003	May 31, 2003
<i>(in thousands, except per share amounts, as restated (See Note B))</i>		
(unaudited)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 17,383	\$ 16,874
Receivables, less allowance of \$3,618 and \$3,350	85,115	85,355
Inventories	93,628	95,896
Prepaid expenses	6,776	6,919
Deferred income taxes, net	18,765	19,401
<b>Total current assets</b>	<b>221,667</b>	<b>224,445</b>
Property, plant and equipment, net	30,665	31,088
Goodwill and intangible assets	5,971	6,129
Other assets	3,398	3,269
<b>Total assets</b>	<b>\$ 261,701</b>	<b>\$ 264,931</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 28,691	\$ 23,660
Accrued liabilities	18,783	17,421
Current portion of long-term debt	46	46
<b>Total current liabilities</b>	<b>47,520</b>	<b>41,127</b>
Long-term debt	134,592	138,396
Deferred income taxes, net	6,883	5,269
Other non-current liabilities	-	5,049
<b>Total liabilities</b>	<b>188,995</b>	<b>189,841</b>
<b>Stockholders' Equity</b>		
Common stock (\$.05 par value; issued 12,273 shares at August 30, 2003 and 12,258 shares at May 31, 2003)	614	613
Class B common stock, convertible (\$.05 par value; issued 3,207 shares at August 30, 2003 and May 31, 2003)	160	160
Preferred stock (\$1.00 par value; no shares issued)	-	-
Additional paid-in capital	92,083	91,962
Common stock in treasury, at cost (1,505 shares at August 30, 2003 and 1,506 shares at May 31, 2003)	(8,919)	(8,922)
Retained earnings	5,926	6,079
Unearned compensation	(448)	(541)
Accumulated other comprehensive loss	(16,710)	(14,261)
<b>Total stockholders' equity</b>	<b>72,706</b>	<b>75,090</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 261,701</b>	<b>\$ 264,931</b>

See notes to condensed consolidated  
financial statements.

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**RICHARDSON ELECTRONICS, LTD**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE THREE-MONTH PERIODS ENDED AUGUST 30, 2003 AND AUGUST 31, 2002**

	Three months ended	
	August 30, 2003	August 31, 2002
<i>(unaudited, in thousands, except per share amounts, as restated (See Note B))</i>		
<b>Net sales</b>	\$ 119,306	\$ 108,614
Cost of products sold	90,191	81,460
<b>Gross margin</b>	29,115	27,154
Selling, general and administrative expenses	25,845	24,246
<b>Operating income</b>	3,270	2,908
Other (income) expense		
Interest expense	2,547	2,596
Other, net	47	(14)
Total other (income) expense	2,594	2,582
Income before income taxes and cumulative effect of accounting change	676	326
Income taxes	284	160
Net income before cumulative effect of accounting change	392	166
Cumulative effect of accounting change, net of tax (Note E)	-	(17,862)
<b>Net income (loss)</b>	<u>\$ 392</u>	<u>\$ (17,696)</u>
<b>Net income (loss) per share - basic:</b>		
Net income per share before cumulative effect of accounting change	\$ 0.03	\$ 0.01
Cumulative effect of accounting change, net of tax (Note E)	-	(1.30)
Net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (1.29)</u>
Average shares outstanding	<u>13,925</u>	<u>13,729</u>
<b>Net income (loss) per share - diluted:</b>		
Net income per share before cumulative effect of accounting change	\$ 0.03	\$ 0.01
Cumulative effect of accounting change, net of tax (Note E)	-	(1.30)
Net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (1.29)</u>
Average shares outstanding	<u>14,201</u>	<u>13,729</u>
<b>Dividends per common share</b>	<u>0.04</u>	<u>0.04</u>
<b>Statement of comprehensive income (loss):</b>		
Net income (loss)	\$ 392	\$ (17,696)
Foreign currency translation	(2,630)	(2)
Fair value adjustments - cash flow hedges	181	(276)
Comprehensive income (loss)	<u>\$ (2,057)</u>	<u>\$ (17,974)</u>

See notes to condensed consolidated financial statements.

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**RICHARDSON ELECTRONICS, LTD**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE-MONTH PERIODS ENDED AUGUST 30, 2003 AND AUGUST 31, 2002**

<i>(unaudited, in thousands, as restated (See Note B))</i>	<b>Three months ended</b>	
	<b>August 30, 2003</b>	<b>August 31, 2002</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net income (loss)</b>	\$ 392	\$(17,696)
Non-cash charges to income (loss):		
Depreciation	1,492	1,366
Amortization of intangibles and financing costs	75	40
Income taxes	284	(119)
Goodwill impairment charge	-	17,862
Other, net	528	520
Total non-cash charges	<u>2,379</u>	<u>19,669</u>
<b>Changes in working capital, net of effects of currency translation:</b>		
Accounts receivable	(1,857)	2,348
Inventories	955	(1,835)
Other current assets	(33)	(386)
Accounts payable	6,128	(8,190)
Other liabilities	(1,474)	(2,405)
Net changes in working capital	<u>3,719</u>	<u>(10,468)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>6,490</u>	<u>(8,495)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	6,000	11,523
Payments on debt	(8,349)	(6,953)
Proceeds from stock issuance	122	21
Cash dividends	(546)	(1,073)
<b>Net cash (used in) provided by financing activities</b>	<u>(2,773)</u>	<u>3,518</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,270)	(1,513)
Earnout payment related to acquisitions	(726)	(764)
Other	-	(257)
<b>Net cash used in investing activities</b>	<u>(1,996)</u>	<u>(2,534)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,212)	265
<b>Net increase (decrease) in cash and cash equivalents</b>	509	(7,246)
Cash and cash equivalents at beginning of period	<u>16,874</u>	<u>15,296</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 17,383</u>	<u>\$ 8,050</u>

*See notes to condensed consolidated financial statements.*

**RICHARDSON ELECTRONICS, LTD**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**Note A – Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements (Statements) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by accounting principles generally accepted in the United States of America 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 period ended August 30, 2003 are not necessarily indicative of the results that may be expected for the year ended May 31, 2004.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the fiscal year ended May 31, 2003. Certain fiscal 2003 balances have been reclassified to confirm to the 2004 presentation.

**Note B - Restatement**

The Company identified an accounting error that occurred in a foreign subsidiary, which affected previously reported interest expense for the prior seven quarters beginning quarter ended February 29, 2002. The correction of the error, which aggregated to \$738, is presented as a restatement of these prior periods. The restatement decreased net income before cumulative effect of accounting change for the first quarter of fiscal 2004 and 2003 from \$506 and \$284 to \$392 and \$166, respectively.

**Note C - Change in Accounting Principle**

At August 30, 2003, the Company's worldwide inventories were stated at the lower of cost or market using the first-in, first-out (FIFO) method. Effective June 1, 2003, the North American operations, which represent a majority of the Company's operations and approximately 76% of the Company's inventories, changed from the last-in, first-out (LIFO) method to the FIFO method. All other inventories were consistently stated at the lower of cost or market using FIFO method. The FIFO method is preferable in the circumstances because it provides a better matching of revenue and expenses in the Company's business environment. The accounting change was not material to the financial statements for any of the periods presented, and accordingly, no retroactive restatement of prior years' financial statements was made. Inventories include material, labor and overhead.

**Note D – Restructuring Charges**

As a result of the Company's fiscal 2003 restructuring initiative, a restructuring charge of \$1,730 was recorded in selling, general and administrative expenses for the year ended May 31, 2003. Severance costs of \$328 were paid in fiscal 2003 with the remaining balance payable in fiscal 2004. The following table depicts the amounts associated with the activity related to the restructuring initiative through August 30, 2003:

	Restructuring liability	Paid through	Reversal	Unpaid balance as of
	May 31, 2003	August 30, 2003	of accrual	August 30, 2003
Employee severance and related costs	\$ 1,192	\$ 634	\$ -	\$ 558
Lease termination costs	210	-	210	-
<b>Total</b>	<b>\$ 1,402</b>	<b>\$ 634</b>	<b>\$ 210</b>	<b>\$ 558</b>

**Note E – Goodwill and Other Intangible Assets**

Effective June 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. This statement changed the accounting for goodwill and indefinite-lived intangible assets from an amortization approach to an impairment-only approach. As a result of the adoption of SFAS No. 142, the Company recorded a transitional impairment charge during the first quarter of fiscal 2003 of \$21,587 (\$17,862 net of tax), presented as a cumulative effect of accounting change. This charge related to the Company's segments as follows: RF & Wireless Communications Group (RWC), \$20,456; and Security Systems Division (SSD), \$1,131.

The Company periodically reviews the carrying amount of goodwill to determine whether an additional impairment may exist. A fair value

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approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of the goodwill exceeds its fair value. Management establishes fair values

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using discounted cash flows. When available and as appropriate, management uses comparative market multiples to corroborate discounted cash flow results. The Company performed its annual impairment test during the fourth quarter of fiscal 2003. The Company did not find any indication that additional impairment existed and, therefore, no additional impairment loss was recorded.

The table below provides changes in the carrying values of goodwill and intangible assets not subject to amortization by reportable segment:

	Goodwill and intangible assets not subject to amortization				
	RFWC	IPG	SSD	DSG	Total
Balance at May 31, 2003	\$ -	\$ 882	\$ 1,714	\$ 2,959	\$ 5,555
Modification of earnout payment	-	-	-	(58)	(58)
Foreign currency translation	-	(3)	(22)	-	(25)
Balance at August 30, 2003	\$ -	\$ 879	\$ 1,692	\$ 2,901	\$ 5,472

Intangible assets subject to amortization as well as amortization expense for the first quarter are as follows:

	August 30, 2003		May 31, 2003	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Deferred financing costs	\$ 2,191	\$ 1,719	\$ 2,191	\$ 1,647
Patents and trademarks	478	451	478	448
Total	\$ 2,669	\$ 2,170	\$ 2,669	\$ 2,095

	Amortization expense for the First Quarter	
	FY 2004	FY 2003
Intangible assets subject to amortization:		
Deferred financing costs	\$ 72	\$ 37
Patents and trademarks	3	3
Total	\$ 75	\$ 40

The amortization expense associated with the existing intangible assets subject to amortization is expected to be \$299, \$180, \$75 and \$20 in fiscal 2004, 2005, 2006, and 2007, respectively. The weighted average number of years of amortization expense remaining is 2.0.

**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.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of the products subject to warranty. Such costs are accrued at the time revenue is recognized. The warranty reserves are determined based on known product failures, historical experience, and other currently available evidence. The reserve is included in "Accrued Liabilities" on the Condensed Consolidated Balance Sheets.

Changes in the warranty reserve for the three months ended August 30, 2003 were as follows:

Warranty Reserve
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Balance at May 31, 2003	\$ 672
Accruals for products sold	203
Utilization	(21)
Balance at August 30, 2003	<u>\$ 854</u>

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The increase in the warranty accrual represents warranties related to a new product offering by the Company's Display Systems Group beginning in the third quarter of fiscal 2003.

### **Note G – Income Taxes**

The income tax provisions for the three-month periods ended August 30, 2003 and August 31, 2002 are based on the estimated annual effective tax rate of 42.0% and 49.1%, respectively. The difference between the effective tax rate and the U.S. statutory rate of 35% primarily results from the Company's geographic distribution of taxable income and losses, certain non-tax deductible charges, and the Company's foreign sales corporation benefit on export sales, net of state income taxes.

### **Note H – Calculation of Earnings per Share**

Basic income (loss) per share is calculated by dividing net income by the weighted average number of Common and Class B Common shares outstanding. Diluted income (loss) per share is calculated by dividing net income (loss) (adjusted for interest savings, net of tax, on assumed conversion of bonds) 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 bonds when such assumptions have a dilutive effect on the calculation. The Company's 8¼% and 7¼% convertible debentures are excluded from the calculation in both fiscal 2004 and 2003, as assumed conversion and effect of interest savings would be anti-dilutive. The per share amounts presented in the Condensed Consolidated Statements of Operations are based on the following amounts:

	First Quarter	
	FY 2004	FY 2003
Numerator for basic and diluted EPS:		
Net income before cumulative effect of accounting change	\$ 392	\$ 166
Cumulative effect of accounting change	-	(17,862)
Net income (loss)	<u>\$ 392</u>	<u>\$ (17,696)</u>
Denominator:		
Denominator for basic EPS		
Weighted average common shares outstanding	13,925	13,729
Effect of dilutive securities:		
Unvested restricted stock awards	39	-
Dilutive stock options	237	-
Shares applicable to diluted income (loss) per common share	<u>14,201</u>	<u>13,729</u>

The effect of potentially dilutive stock options is calculated using the treasury stock method. Certain stock options are excluded from the calculations because the average market price of the Company's stock during the period did not exceed the exercise price of those options. For the three-month period ended August 30, 2003, there were 579 such options. However, some or all of the above mentioned options may be potentially dilutive in the future.

### **Note I – Stock-Based Compensation**

The Company has stock-based compensation plans under which stock options are granted to key managers at the market price on the date of grant. Most of these new grants are fully exercisable after five years and have a ten-year life. No such grants were issued during the three months ended August 30, 2003.

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB Opinion 25, issued in March 2000, to account for its stock options. Under this method, compensation expense is recorded

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on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Statement of Financial Accounting Standard ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No.123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No.123. The following table illustrates the pro-forma effect on net income (loss) attributable to common stockholders if the fair value-based method had been applied to all outstanding and unvested awards in each period.

	First Quarter	
	FY 2004	FY 2003
Net income (loss), as reported	\$ 392	\$ (17,696)
Add: Stock-based compensation expense included in reported net income (loss), net of tax	60	58
Deduct: Stock-based compensation expense determined under fair value-based method for all awards, net of taxes	(264)	(298)
Pro-forma net income (loss)	<u>\$ 188</u>	<u>\$ (17,936)</u>
Income (loss) per share, basic and diluted:		
Reported net income (loss)	\$ 0.03	\$ (1.29)
Pro-forma compensation expense, net of taxes	(0.02)	(0.02)
Pro-forma net income (loss) per share	<u>\$ 0.01</u>	<u>\$ (1.31)</u>

**Note J – Segment and Geographic Information**

The marketing, sales, product management, and purchasing functions of the Company consists of four strategic business units (SBU's): RF & Wireless Communications Group (RWC), Industrial Power Group (IPG), Security Systems Division (SSD), and Display Systems Group (DSG).

RWC serves the voice and data telecommunications market and the broadcast industry predominately for infrastructure applications.

IPG serves a broad range of customers including the steel, automotive, textile, plastics, semiconductor manufacturing, and transportation industries.

SSD provides security systems and related design services which includes such products as closed circuit television (CCTV), fire, burglary, access control, sound and communication products and accessories.

DSG provides system integration and custom display solutions for the public information, financial, point-of-sale, and medical imaging markets.

Each SBU is directed by a Vice President and General Manager who reports to the President and Chief Operating Officer. The President evaluates performance and allocates resources, in part, based on the direct operating contribution of each SBU. Direct operating contribution is defined as gross margin less product management and direct selling expenses.

Accounts receivable, inventory, and goodwill are identified by SBU. Cash, net property and other assets are not identifiable by SBU.

Operating results for each SBU are summarized in the following table:

	Gross		Direct Operating	Goodwill and	
	Sales	Margin	Contribution	Assets	Intangibles
First Quarter					
FY 2004					
RWC	\$ 49,815	\$ 11,182	\$ 5,688	\$ 79,016	\$ -
IPG	25,850	7,669	5,437	46,846	879
SSD	25,172	6,361	3,567	31,584	1,692
DSG	16,079	4,259	2,407	20,847	2,901
Total	<u>\$ 116,916</u>	<u>\$ 29,471</u>	<u>\$ 17,099</u>	<u>\$ 178,293</u>	<u>\$ 5,472</u>
FY 2003					
RWC					