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 November 26, 2022

OR

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

For the transition period from _________ To

Commission File Number: 0-12906

RICHARDSON ELECTRONICS, LTD.

(Exact name of registrant as specified in its charter)

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

40W267 Keslinger Road, P.O. Box 393
LaFox, Illinois 60147-0393
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common stock, $0.05 Par Value	RELL	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	Smaller Reporting Company	☒
Emerging Growth Company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of January 3, 2023, there were outstanding 12,022,371 shares of Common Stock, $0.05 par value and 2,052,313 shares of Class B Common Stock, $0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Unaudited November 26, 2022	Audited May 28, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 26,106	$ 35,495
Accounts receivable, less allowance of $178 and $186, respectively	34,880	29,878
Inventories, net	97,434	80,390
Prepaid expenses and other assets	2,521	2,448
Investments - current	5,000	5,000
Total current assets	**165,941**	**153,211**
Non-current assets:		
Property, plant and equipment, net	17,964	16,961
Intangible assets, net	2,025	2,010
Lease ROU asset	2,527	3,239
Other non-current assets	302	—
Non-current deferred income taxes	4,342	4,398
Total non-current assets	**27,160**	**26,608**
Total assets	**$ 193,101**	**$ 179,819**
Liabilities		
Current liabilities:		
Accounts payable	$ 24,603	$ 23,987
Accrued liabilities	17,074	16,110
Lease liability current	1,015	1,109
Total current liabilities	**42,692**	**41,206**
Non-current liabilities:		
Non-current deferred income tax liabilities	83	85
Lease liability non-current	1,512	1,915
Other non-current liabilities	726	766
Total non-current liabilities	**2,321**	**2,766**
Total liabilities	**45,013**	**43,972**
Stockholders' Equity		
Common stock, $0.05 par value; issued and outstanding 12,022 shares on November 26, 2022 and 11,649 shares on May 28, 2022	601	582
Class B common stock, convertible, $0.05 par value; issued and outstanding 2,052 shares on November 26, 2022 and 2,053 shares on May 28, 2022	103	103
Preferred stock, $1.00 par value, no shares issued	—	—
Additional paid-in-capital	69,669	66,331
Retained earnings	78,254	68,031
Accumulated other comprehensive (loss) income	(539)	800
Total stockholders' equity	**148,088**	**135,847**
Total liabilities and stockholders' equity	**$ 193,101**	**$ 179,819**

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

	Three Months Ended		Six Months Ended	
	November 26, 2022	November 27, 2021	November 26, 2022	November 27, 2021
Net sales	$ 65,905	$ 53,979	$ 133,462	$ 107,683
Cost of sales	44,054	36,322	88,584	73,729
Gross profit	**21,851**	**17,657**	**44,878**	**33,954**
Selling, general and administrative expenses	14,677	13,135	28,925	26,604
(Gain) loss on disposal of assets	(25)	2	(25)	2
Operating income	**7,199**	**4,520**	**15,978**	**7,348**
Other expense (income):				
Investment/interest income	(78)	(8)	(103)	(25)
Foreign exchange loss	223	(150)	597	(123)
Other, net	(13)	6	(15)	22
Total other expense (income)	132	(152)	479	(126)
Income before income taxes	7,067	4,672	15,499	7,474
Income tax provision	1,518	550	3,626	717
Net income	**5,549**	**4,122**	**11,873**	**6,757**
Foreign currency translation gain (loss), net of tax	976	(1,420)	(1,339)	(2,422)
Comprehensive income	**$ 6,525**	**$ 2,702**	**$ 10,534**	**$ 4,335**
Net income per share:				
Common shares - Basic	$ 0.40	$ 0.31	$ 0.87	$ 0.52
Class B common shares - Basic	0.36	0.28	0.78	0.46
Common shares - Diluted	0.39	0.30	0.83	0.50
Class B common shares - Diluted	0.35	0.27	0.75	0.45
Weighted average number of shares:				
Common shares – Basic	11,918	11,270	11,816	11,232
Class B common shares – Basic	2,053	2,097	2,053	2,097
Common shares – Diluted	12,535	11,697	12,442	11,568
Class B common shares – Diluted	2,053	2,097	2,053	2,097
Dividends per share:				
Common share	$ 0.060	$ 0.060	$ 0.120	$ 0.120
Class B common share	0.054	0.054	0.108	0.108

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

	Three Months Ended		Six Months Ended	
	November 26, 2022	**November 27, 2021**	**November 26, 2022**	**November 27, 2021**
Operating activities:				
Net income	$ 5,549	$ 4,122	$ 11,873	$ 6,757
Adjustments to reconcile net income to cash (used in) provided by operating activities:				
Depreciation and amortization	893	859	1,776	1,688
Inventory provisions	124	57	195	140
Share-based compensation expense	213	153	524	372
(Gain) loss on disposal of assets	(25)	2	(25)	2
Deferred income taxes	27	(23)	28	12
Change in assets and liabilities:				
Accounts receivable	(2,009)	1,862	(5,505)	(3,146)
Inventories	(7,658)	(4,225)	(18,126)	(9,182)
Prepaid expenses and other assets	774	(994)	(425)	(1,056)
Accounts payable	(699)	1,695	796	2,302
Accrued liabilities	(1,062)	1,032	1,147	1,512
Other	(49)	91	589	357
Net cash (used in) provided by operating activities	**(3,922)**	**4,631**	**(7,153)**	**(242)**
Investing activities:				
Capital expenditures	(1,301)	(770)	(2,743)	(1,607)
Proceeds from sale of assets	193	—	193	—
Net cash used in investing activities	**(1,108)**	**(770)**	**(2,550)**	**(1,607)**
Financing activities:				
Proceeds from issuance of common stock	1,517	672	2,902	724
Cash dividends paid	(831)	(792)	(1,650)	(1,578)
Other	—	(46)	(69)	(91)
Net cash provided by (used in) financing activities	**686**	**(166)**	**1,183**	**(945)**
Effect of exchange rate changes on cash and cash equivalents	(183)	(448)	(869)	(857)
(Decrease) increase in cash and cash equivalents	**(4,527)**	**3,247**	**(9,389)**	**(3,651)**
Cash and cash equivalents at beginning of period	30,633	36,418	35,495	43,316
Cash and cash equivalents at end of period	**$ 26,106**	**$ 39,665**	**$ 26,106**	**$ 39,665**

Richardson Electronics, Ltd.
Unaudited Consolidated Statement of Stockholders' Equity
(in thousands, except per share amounts)

	Common	Class B Common	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance May 28, 2022:	**11,649**	**2,053**	**$ 685**	**$ 66,331**	**$ 68,031**	**$ 800**	**$ 135,847**
Comprehensive income:							
Net income	—	—	—	—	11,873	—	11,873
Foreign currency translation	—	—	—	—	—	(1,339)	(1,339)
Share-based compensation:							
Restricted stock	—	—	—	262	—	—	262
Stock options	—	—	—	262	—	—	262
Common stock:							
Options exercised	323	—	17	2,885	—	—	2,902
Restricted stock issuance	49	—	2	(71)	—	—	(69)
Class B converted to Common	1	(1)	—	—	—	—	—
Dividends paid to:							
Common ($0.120 per share)	—	—	—	—	(1,428)	—	(1,428)
Class B ($0.108 per share)	—	—	—	—	(222)	—	(222)
Balance November 26, 2022	**12,022**	**2,052**	**$ 704**	**$ 69,669**	**$ 78,254**	**$ (539)**	**$ 148,088**

	Common	Class B Common	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance August 27, 2022:	**11,848**	**2,053**	**$ 695**	**$ 67,948**	**$ 73,536**	**$ (1,515)**	**$ 140,664**
Comprehensive income:							
Net income	—	—	—	—	5,549	—	5,549
Foreign currency translation	—	—	—	—	—	976	976
Share-based compensation:							
Restricted stock	—	—	—	139	—	—	139
Stock options	—	—	—	74	—	—	74
Common stock:							
Options exercised	173	—	9	1,508	—	—	1,517
Class B converted to Common	1	(1)	—	—	—	—	—
Dividends paid to:							
Common ($0.060 per share)	—	—	—	—	(719)	—	(719)
Class B ($0.054 per share)	—	—	—	—	(112)	—	(112)
Balance November 26, 2022	**12,022**	**2,052**	**$ 704**	**$ 69,669**	**$ 78,254**	**$ (539)**	**$ 148,088**

	Common	Class B Common	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance May 29, 2021:	**11,160**	**2,097**	**$ 663**	**$ 62,707**	**$ 53,297**	**$ 4,893**	**$ 121,560**
Comprehensive income:							
Net income	—	—	—	—	6,757	—	6,757
Foreign currency translation	—	—	—	—	—	(2,422)	(2,422)
Share-based compensation:							
Restricted stock	—	—	—	234	—	—	234
Stock options	—	—	—	138	—	—	138
Common stock:							
Options exercised	105	—	5	719	—	—	724
Restricted stock issuance	73	—	4	(4)	—	—	—
Dividends paid to:							
Common ($0.120 per share)	—	—	—	—	(1,352)	—	(1,352)
Class B ($0.108 per share)	—	—	—	—	(226)	—	(226)
Balance November 27, 2021	**11,338**	**2,097**	**$ 672**	**$ 63,794**	**$ 58,476**	**$ 2,471**	**$ 125,413**
Balance August 28, 2021:	**11,241**	**2,097**	**$ 667**	**$ 62,974**	**$ 55,146**	**$ 3,891**	**$ 122,678**
Comprehensive income:							
Net income	—	—	—	—	4,122	—	4,122
Foreign currency translation	—	—	—	—	—	(1,420)	(1,420)
Share-based compensation:							
Restricted stock	—	—	—	106	—	—	106
Stock options	—	—	—	47	—	—	47
Common stock:							
Options exercised	97	—	5	667	—	—	672
Dividends paid to:							
Common ($0.060 per share)	—	—	—	—	(679)	—	(679)
Class B ($0.054 per share)	—	—	—	—	(113)	—	(113)
Balance November 27, 2021	**11,338**	**2,097**	**$ 672**	**$ 63,794**	**$ 58,476**	**$ 2,471**	**$ 125,413**

RICHARDSON ELECTRONICS, LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. (the "Company", "we", "our") is a leading global manufacturer of engineered solutions, power grid and microwave tubes, and related consumables; power conversion and RF and microwave components; high-value replacement parts, tubes, and service training for diagnostic imaging equipment; and customized display solutions. More than 60% of our products are manufactured in LaFox, Illinois, Marlborough, Massachusetts, or Donaueschingen, Germany, or by one of our manufacturing partners throughout the world. All our partners manufacture to our strict specifications and per our supplier code of conduct. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. The Company's strategy is to provide specialized technical expertise and "engineered solutions" based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair through its global infrastructure.

Our products include electron tubes and related components, microwave generators, subsystems used in semiconductor manufacturing and visual technology solutions. These products are used to control, switch or amplify electrical power signals, or are used as display devices in a variety of industrial, commercial, medical and communication applications.

The Company began reporting the results for its new Green Energy Solutions ("GES") segment in the first quarter of fiscal 2023 due to its focus on the power applications that support the green energy market. The GES segment has been carved out of our existing Power and Microwave Technologies ("PMT") segment. Accordingly, the Company is reporting its financial performance based on four operating and reportable segments. The results for fiscal 2022 presented herein were adjusted to reflect the presentation of the new GES segment separately from the PMT segment.

The Company's four operating and reportable segments are defined as follows:

Power and Microwave Technologies combines our core engineered solutions capabilities, power grid and microwave tube business with new disruptive RF, Wireless and Power technologies. As a designer, manufacturer, technology partner and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in 5G, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Green Energy Solutions combines our key technology partners and engineered solutions capabilities to design and manufacture key products for the fast-growing energy storage market and power management applications. As a designer, manufacturer, technology partner and authorized distributor, GES's strategy is to provide specialized technical expertise and engineered solutions using our core design engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. GES's focus is on products for numerous green energy applications such as wind, solar, hydrogen and Electric Vehicles, and other power management applications that support green solutions such as synthetic diamond manufacturing.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, All-In-One computers, specialized cabinet finishes and application specific software packages and certification services. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, repairs, refurbishes and distributes high value replacement parts and equipment for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include diagnostic imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; pre-owned CT systems; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency while lowering the cost of healthcare delivery.

We currently have operations in the following major geographic regions: North America, Asia/Pacific, Europe and Latin America.

2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by GAAP for complete financial statements.

Our fiscal quarter ends on the Saturday nearest the end of the quarter-ending month. The second quarter of fiscal 2023 and fiscal 2022 both contained 13 weeks. The first six months of fiscal 2023 and fiscal 2022 both contained 26 weeks.

In the opinion of management, all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results of interim periods have been made. All inter-company transactions and balances have been eliminated. The unaudited consolidated financial statements presented herein include the accounts of our wholly owned subsidiaries. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The results of our operations for the six months ended November 26, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending May 27, 2023.

As described in Note 1, *Description of the Company* and Note 7, *Segment Reporting*, the Company began reporting the results for its new Green Energy Solutions ("GES") segment in the first quarter of fiscal 2023 due to its focus on the power applications that support the green energy market. The GES segment has been carved out of our existing Power and Microwave Technologies ("PMT") segment. Accordingly, the Company is reporting its financial performance based on four operating and reportable segments. The results for fiscal 2022 presented herein were adjusted to reflect the presentation of the new GES segment separately from the PMT segment. Refer to Note 7, *Segment Reporting*, for additional information on the changes in operating and reportable segments.

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 28, 2022, which was filed with the SEC on August 1, 2022.

3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Inventories, net: Our consolidated inventories were stated at the lower of cost and net realizable value, generally using a weighted-average cost method. Our net inventories include approximately $80.2 million of finished goods, $11.2 million of raw materials and $6.0 million of work-in-progress as of November 26, 2022, as compared to approximately $66.6 million of finished goods, $8.0 million of raw materials and $5.8 million of work-in-progress as of May 28, 2022.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs. Provisions for obsolete or slow-moving inventories are recorded based upon regular analysis of stock rotation privileges, obsolescence, the exiting of certain markets and assumptions about future demand and market conditions. If future demand changes in the industry, or market conditions differ from management's estimates, additional provisions may be necessary. Inventory reserves were approximately $6.0 million as of November 26, 2022 and $6.1 million as of May 28, 2022.

Revenue Recognition: Our customers are generally not resellers, but rather businesses that incorporate our products into their processes from which they generate an economic benefit. The goods are also distinct in that each item sold to the customer is clearly identified on both the purchase order and resulting invoice. Each product we sell benefits the customer independently of the other products. Each item on each purchase order from the customer can be used by the customer unrelated to any other products we provide to the customer.

The Company's revenue includes the following streams:

- Manufacturing/assembly
- Distribution
- Services revenue

Manufacturing/assembly typically includes the products that are manufactured or assembled in our manufacturing facility. These products can either be built to the customer's prints/designs or are products that we stock in our warehouse to sell to any customer that places an order. The manufacturing business does not include a separate service bundled with the product sold or sold in addition to the product. Our contracts for customized products generally include termination provisions if a customer cancels its order. However, we recognize revenue at a point in time because the termination provisions normally do not require, upon cancelation, the customer to pay fees that are commensurate with the work performed. Each purchase order explicitly states the goods or service that we promise to transfer to the customer. The promises to the customer are limited only to those goods or service. The performance obligation is our promise to deliver both goods that were produced by the Company and resale of goods that we purchase from our suppliers. Our shipping and handling activities for destination shipments are performed prior to the customer obtaining control. As such, they are not a separate promised service. The Company elects to account for shipping and handling as activities to fulfill the promise to transfer the goods. The goods we provide to our customers are distinct in that our customers benefit from the goods we sell them through use in their own processes.

Distribution typically includes products purchased from our suppliers, stocked in our warehouses and then sold to our customers. The distribution business does not include a separate service bundled with the product sold or sold on top of the product. Revenue is recognized when control of the promised goods is transferred to our customers, which is simultaneous with the title transferring to the customer, in an amount that reflects the transaction price consideration that we expect to receive in exchange for those goods. Control refers to the ability of the customer to direct the use of, and obtain substantially all of, the remaining benefits from the goods. Our transaction price consideration is fixed, unless otherwise disclosed below as variable consideration. Generally, our contracts require our customers to pay for goods after we deliver products to them. Terms are generally on open account, payable net 30 days in North America, and vary throughout Asia/Pacific, Europe and Latin America subject to customary credit checks.

Repair, installation or training activities generate services revenue. The services we provide are relatively short in duration and typically completed in one or two weeks. Therefore, at each reporting date, the amount of unbilled work is insignificant. The services revenue has consistently accounted for less than 5% of the Company's total revenues and is expected to continue at that level.

We record discounts taken based on historical experience. The policy varies by business unit. The Company allows returns with prior written authorization. We estimate returns based on historical experience. The Company maintains a reserve for returns based on historical trends that covers all contracts and revenue streams using the expected value method because we have a large number of contracts with similar characteristics, which is considered variable consideration. The reserve for returns creates a refund liability on our balance sheet as a contra trade accounts receivable as well as an asset in inventory. We value the inventory at cost due to there being minimal or no costs to the Company as we generally require the customer to pay freight and we typically do not have costs associated with activities such as relabeling or repackaging. The reserve is considered immaterial at each balance sheet date. Returns for defective product are typically covered by our suppliers' warranty, thus, returns for defective product are not factored into our reserve.

Principal versus agent guidance was considered for customized products that are provided by our suppliers versus manufactured by the Company. The Company acts as the principal as we are responsible for satisfying the performance obligation. We have primary responsibility for fulfilling the contract, we have inventory risk prior to delivery to our customer, we establish prices, our consideration is not in the form of a commission and we bear the credit risk. The Company recognizes revenue in the gross amount of consideration.

Contracts with customers

A revenue contract exists once a customer purchase order is received, reviewed and accepted. Each accepted purchase order identifies a distinct good or service as the performance obligation. The goods include standard products purchased from a supplier and stocked on our shelves, customized products purchased from a supplier, products that are customized or have value added to them in house prior to shipping to the customer and manufactured products. Prior to accepting a customer purchase order, we review the credit worthiness of the customer. Purchase orders are deemed to meet the collectability criterion once the customer's credit is approved. The Company receives advance payments or deposits from our customers before revenue is recognized resulting in contract liabilities. Contract liabilities are included in accrued liabilities in the consolidated balance sheets.

Contract Liabilities: Contract liabilities and revenue recognized were as follows (*in thousands*):

	May 28, 2022	**Additions**	**Revenue Recognized**	**November 26, 2022**
Contract liabilities (deferred revenue)	$ 4,966	$ 2,543	$ (3,010)	$ 4,499

See Note 7, *Segment Reporting,* for a disaggregation of revenue by reportable segment and geographic region, which represents how our chief operating decision maker reviews information internally to evaluate our financial performance and to make resource allocation and other decisions for the Company.

Loss Contingencies: We accrue a liability for loss contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. If we determine that there is at least a reasonable possibility that a loss may have been incurred, we will include a disclosure describing the contingency.

Intangible Assets: Intangible assets are initially recorded at their fair market values determined by quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized over their useful lives either on a straight-line basis or over their projected future cash flows and are tested for impairment when events or changes in circumstances occur that indicate possible impairment. Our intangible assets represent the fair value for trade name, customer relationships and non-compete agreements acquired in connection with the acquisitions. Technology represents the fair value acquired in connection with acquisitions and an exclusive license, manufacturing and distribution agreement. Intangible assets subject to amortization were as follows *(in thousands)*:

	November 26, 2022	May 28, 2022
Gross Amounts:		
Trade Name	$ 659	$ 659
Customer Relationships[(1)]	3,383	3,393
Non-compete Agreements	177	177
Technology	380	230
Total Gross Amounts	$ 4,599	$ 4,459
Accumulated Amortization:		
Trade Name	$ 659	$ 659
Customer Relationships	1,555	1,453
Non-compete Agreements	177	177
Technology	183	160
Total Accumulated Amortization	$ 2,574	$ 2,449
Net Intangible Assets	$ 2,025	$ 2,010

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

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

Fiscal Year	Amortization Expense
Remaining 2023	$ 134
2024	252
2025	240
2026	205
2027	194
Thereafter	1,000
Total amortization	$ 2,025

The weighted average number of years of amortization expense remaining is 11.5 years.

Income Taxes: We recognize deferred tax assets and liabilities based on the differences between financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and determine the need for a valuation allowance based on a number of factors, including both positive and negative evidence. These factors include historical taxable income or loss, projected future taxable income or loss, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. In circumstances where we, or any of our affiliates, have incurred three years of cumulative losses which constitute significant negative evidence, positive evidence of equal or greater significance is needed to overcome the negative evidence before a tax benefit is recognized for deductible temporary differences and loss carryforwards.

Accrued Liabilities: Accrued liabilities consisted of the following (in thousands):

	November 26, 2022	May 28, 2022
Compensation and payroll taxes	$ 4,484	$ 5,519
Accrued severance	516	678
Professional fees	738	470
Deferred revenue	4,499	4,966
Other accrued expenses	6,837	4,477
Accrued Liabilities	$ 17,074	$ 16,110

Warranties: We offer warranties for the limited number of specific products we manufacture.

We estimate the cost to perform under the warranty obligation and recognize this estimated cost at the time of the related product sale. We record expense related to our warranty obligations as cost of sales in our consolidated statements of comprehensive income. Each quarter, we assess actual warranty costs incurred on a product-by-product basis and compare the warranty costs to our estimated warranty obligation. With respect to new products, estimates are based generally on knowledge of the products and warranty experience.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience and other available evidence. Warranty reserves were approximately $0.8 million as of November 26, 2022 and $0.7 million as of May 28, 2022.

4. LEASE OBLIGATIONS AND OTHER COMMITMENTS

The Company leases real and personal property in the normal course of business under various operating and financing leases. The Company uses operating leases for facility space and automobiles. Most of the leased facility space is for sales and general office use. Automobile leases are used throughout the Company. Financing leases are used for computer servers.

Several leases include renewal clauses which vary in length and may not include specific rent renewal amounts. The Company will revise the value of the right of use assets and associated lease liabilities when the Company determines it is reasonably certain of renewal.

The gross amounts of assets and liabilities related to both operating and financing leases were as follows *(in thousands)*:

Lease Type	November 26, 2022	May 28, 2022
Operating lease ROU asset	$ 2,527	$ 3,024
Financing lease ROU asset	—	215
Total lease ROU asset	$ 2,527	$ 3,239
Operating lease liability current	$ 1,015	$ 1,109
Operating lease liability non-current	$ 1,512	$ 1,915

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

		Three Months Ended	
		November 26, 2022	November 27, 2021
Consolidated operating lease expense	Operating expenses	$ 411	$ 446
Consolidated financing lease amortization	Operating expenses	—	23
Consolidated financing lease interest	Interest expense	—	1
Consolidated financing lease expense		—	24
Net lease cost		$ 411	$ 470

		Six Months Ended	
		November 26, 2022	November 27, 2021
Consolidated operating lease expense	Operating expenses	$ 865	$ 901
Consolidated financing lease amortization	Operating expenses	—	46
Consolidated financing lease interest	Interest expense	—	3
Consolidated financing lease expense		—	49
Net lease cost		$ 865	$ 950

The approximate future minimum lease payments under operating leases at November 26, 2022 were as follows *(in thousands)*:

Fiscal Year	Operating Leases	
Remaining 2023	$	611
2024		920
2025		643
2026		400
2027		75
Thereafter		16
Total lease payments		2,665
Less imputed interest		138
Net minimum lease payments	$	2,527

The weighted average remaining lease terms and interest rates of leases held by the Company as of November 26, 2022 were as follows:

Lease Type	Weighted Average Remaining Lease Term in Years	Weighted Average Interest Rate
Operating leases	2.9	4.2%

The cash outflows of the leasing activity of the Company as lessee for the six months ending November 26, 2022 and November 27, 2021 were as follows *(in thousands)*:

		Six Months Ended			
Cash Flow Source	Classification	November 26, 2022		November 27, 2021	
Operating cash flows from operating leases	Operating activities	$	496	$	1,303
Operating cash flows from financing leases	Operating activities		—		88
Finance cash flows from financing leases	Financing activities		—		91

5. INCOME TAXES

We recorded an income tax provision of $3.6 million and $0.7 million for the first six months of fiscal 2023 and the first six months of fiscal 2022, respectively. The effective income tax rate during the first six months of fiscal 2023 was a tax provision of 23.4% as compared to a tax provision of 9.6% during the first six months of fiscal 2022. The difference in rate during the first six months of fiscal 2023 as compared to the first six months of fiscal 2022 reflects changes in the valuation allowance recorded at year end fiscal 2022, absence of Net Operating Losses ("NOL") for utilization in fiscal 2023, our geographical distribution of income (loss), which is primarily driven by an increase in U.S. earnings for fiscal 2023 and a state income tax provision. The 23.4% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss), which is primarily driven by an increase in U.S. earnings for fiscal 2023 and a state income tax provision.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2017 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We were under examination for fiscal 2015 through fiscal 2018 in Germany. The audit was settled in the fourth quarter of fiscal 2022. In the second quarter of fiscal 2023, the Company paid the audit assessment for the fiscal 2015 through fiscal 2018 years. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2019 and the Netherlands beginning in fiscal 2021.

We have historically determined that certain undistributed earnings of our foreign subsidiaries, to the extent of cash available, will be repatriated to the U.S. The deferred tax liability on the outside basis difference is now primarily withholding tax on future dividend distributions. The Company does not have a deferred tax liability recorded on the outside basis difference as of November 26, 2022 but had a deferred liability of $0.1 million as of May 28, 2022,

As of November 26, 2022 and as of May 28, 2022, our worldwide liability for uncertain tax positions related to continuing operations was $0.1 million, excluding interest and penalties. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the consolidated statements of comprehensive loss.

As of November 26, 2022, we have maintained a full valuation allowance against the foreign tax credit deferred tax asset based on negative evidence relating to the Company's ability to utilize the foreign tax credit carryforward in the future. As of November 26, 2022, a valuation allowance of $3.4 million was recorded, representing the portion of the deferred tax asset that management does not believe is more likely than not to be realized. The valuation allowance as of November 27, 2021 was $10.4 million. The remaining valuation allowance relates to foreign tax credits ($1.8 million), state NOLs ($0.2 million) and deferred tax assets in foreign jurisdictions where historical taxable losses have been incurred ($1.4 million). The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

6. CALCULATION OF EARNINGS PER SHARE

We have authorized 17,000,000 shares of common stock and 3,000,000 shares of Class B common stock. The Class B common stock has 10 votes per share and has transferability restrictions; however, Class B common stock may be converted into common stock on a share-for-share basis at any time. With respect to dividends and distributions, shares of common stock and Class B common stock rank equally and have the same rights, except that Class B common stock cash dividends are limited to 90% of the amount of common stock cash dividends.

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. 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.

The earnings per share ("EPS") presented in our unaudited consolidated statements of comprehensive income were based on the following amounts (*in thousands, except per share amounts*):

	Three Months Ended			
	November 26, 2022		November 27, 2021	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Net income	$ 5,549	$ 5,549	$ 4,122	$ 4,122
Less dividends:				
Common stock	719	719	679	679
Class B common stock	112	112	113	113
Undistributed earnings	$ 4,718	$ 4,718	$ 3,330	$ 3,330
Common stock undistributed earnings	$ 4,085	$ 4,112	$ 2,852	$ 2,867
Class B common stock undistributed earnings	633	606	478	463
Total undistributed earnings	$ 4,718	$ 4,718	$ 3,330	$ 3,330
Denominator for Basic and Diluted EPS:				
Common stock weighted average shares	11,918	11,918	11,270	11,270
Effect of dilutive securities				
Dilutive stock options		617		427
Denominator for diluted EPS adjusted for weighted average shares and assumed conversion		12,535		11,697
Class B common stock weighted average shares and shares under if-converted method for diluted EPS	2,053	2,053	2,097	2,097
Net income per share:				
Common stock	$ 0.40	$ 0.39	$ 0.31	$ 0.30
Class B common stock	$ 0.36	$ 0.35	$ 0.28	$ 0.27

Note: There were no common stock options that were antidilutive in the second quarter of fiscal 2023 and fiscal 2022.

	Six Months Ended			
	November 26, 2022		November 27, 2021	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Net income	$ 11,873	$ 11,873	$ 6,757	$ 6,757
Less dividends:				
Common stock	1,428	1,428	1,352	1,352
Class B common stock	222	222	226	226
Undistributed earnings	$ 10,223	$ 10,223	$ 5,179	$ 5,179
Common stock undistributed earnings	$ 8,841	$ 8,901	$ 4,434	$ 4,453
Class B common stock undistributed earnings	1,382	1,322	745	726
Total undistributed earnings	$ 10,223	$ 10,223	$ 5,179	$ 5,179
Denominator for Basic and Diluted EPS:				
Common stock weighted average shares	11,816	11,816	11,232	11,232
Effect of dilutive securities				
Dilutive stock options		626		336
Denominator for diluted EPS adjusted for weighted average shares and assumed conversion		12,442		11,568
Class B common stock weighted average shares and shares under if-converted method for diluted EPS	2,053	2,053	2,097	2,097
Net income per share:				
Common stock	$ 0.87	$ 0.83	$ 0.52	$ 0.50
Class B common stock	$ 0.78	$ 0.75	$ 0.46	$ 0.45

Note: There were no common stock options that were antidilutive in the first six months of fiscal 2023 and fiscal 2022.

7. SEGMENT REPORTING

The Company began reporting the results for its new Green Energy Solutions ("GES") segment in the first quarter of fiscal 2023 due to its focus on the power applications that support the green energy market. The GES segment has been carved out of our existing Power and Microwave Technologies (“PMT”) segment. Accordingly, the Company is reporting its financial performance based on four operating and reportable segments. The results for fiscal 2022 presented herein were adjusted to reflect the presentation of the new GES segment separately from the PMT segment.

The Company's four operating and reportable segments are defined as follows:

Power and Microwave Technologies combines our core engineered solutions capabilities, power grid and microwave tube business with new disruptive RF, Wireless and Power technologies. As a designer, manufacturer, technology partner and authorized distributor, PMT’s strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT’s focus is on products for power, RF and microwave applications for customers in 5G, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Green Energy Solutions combines our key technology partners and engineered solutions capabilities to design and manufacture key products for the fast-growing energy storage market and power management applications. As a designer, manufacturer, technology partner and authorized distributor, GES’s strategy is to provide specialized technical expertise and engineered solutions using our core design engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. GES’s focus is on products for numerous green energy applications such as wind, solar, hydrogen and Electric Vehicles, and other power management applications that support green solutions such as synthetic diamond manufacturing.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, All-In-One computers, specialized cabinet finishes and application specific software packages and certification services. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, repairs, refurbishes and distributes high value replacement parts and equipment for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include diagnostic imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; pre-owned CT systems; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency while lowering the cost of healthcare delivery.

The CEO, who is the chief operating decision maker, evaluates performance and allocates resources primarily based on the gross profit of each segment.

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

	Three Months Ended		**Six Months Ended**	
	November 26, 2022	**November 27, 2021**	**November 26, 2022**	**November 27, 2021**
PMT				
Net Sales	$ 40,585	$ 36,826	$ 85,939	$ 77,261
Gross Profit	14,011	12,399	29,546	24,586
GES				
Net Sales	12,293	4,911	20,804	7,485
Gross Profit	4,162	1,587	7,184	2,331
Canvys				
Net Sales	10,079	9,150	20,492	17,591
Gross Profit	2,995	2,912	6,261	5,730
Healthcare				
Net Sales	2,948	3,092	6,227	5,346
Gross Profit	683	759	1,887	1,307

Geographic net sales information is primarily grouped by customer destination into five areas: North America; Asia/Pacific; Europe; Latin America; and Other.

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

	Three Months Ended		Six Months Ended	
	November 26, 2022	**November 27, 2021**	**November 26, 2022**	**November 27, 2021**
Net Sales				
North America	$ 31,577	$ 24,440	$ 63,405	$ 44,968
Asia/Pacific	15,306	11,699	32,860	24,945
Europe	16,574	15,114	31,930	32,164
Latin America	2,461	2,721	5,306	5,596
Other (1)	(13)	5	(39)	10
Total	$ 65,905	$ 53,979	$ 133,462	$ 107,683
Gross Profit				
North America	$ 12,184	$ 8,658	$ 25,463	$ 16,038
Asia/Pacific	4,791	3,919	10,321	8,065
Europe	4,943	4,834	9,285	9,623
Latin America	883	1,000	1,902	2,081
Other (1)	(950)	(754)	(2,093)	(1,853)
Total	$ 21,851	$ 17,657	$ 44,878	$ 33,954

(1) Other includes primarily net sales not allocated to a specific geographical region, unabsorbed value-add costs and other unallocated expenses.

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

8. RISKS AND UNCERTAINTIES

COVID-19 Update

The impact of the COVID-19 pandemic and its effects continue to evolve. As such, the full magnitude that the pandemic, and the steps taken to prevent, mitigate and/or respond to its spread, will have on the Company's financial condition, liquidity and future results of operations remains uncertain. The extent of the impact of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the pandemic, the extent, speed and effectiveness of continued worldwide containment efforts, and other actions taken by governments, businesses and individuals in response to abatement and resurgence of the virus. Our ability to meet customer demands for products may be impaired or, similarly, our customers may experience adverse business consequences due to the continued impact of COVID-19 and its effects.

Reduced demand for products or impaired ability to meet customer demand (including disruptions at our transportation service providers or vendors) could have a material adverse effect on our business, operations and financial performance. There were sales declines during fiscal year 2021, the majority of which were related to the COVID-19 global pandemic. While the Company did not experience sales declines during fiscal year 2022 as a result of the pandemic, the impacts of the pandemic on supply chain and freight negatively impacted our gross margins as a percentage of net sales in our Canvys and Healthcare segments.

As a result of COVID-19 and its effects, we continued to experience some component delays impacting new product development schedules. The global markets have generally suffered, and are continuing to suffer, from material disruptions in the supply chain.

Management continues to monitor the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce. Given the ever-evolving nature of the pandemic and the continued global responses to the ongoing impact of the pandemic as well as the cycle of recurrences and the after-effects, the Company is not presently able to fully estimate the effects of COVID-19 on its results of operations, financial condition or liquidity going forward.

Company Response to CARES Act

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief and Economic Security ("CARES") Act to provide certain relief as a result of the COVID-19 outbreak. The CARES Act included provisions relating to refundable payroll tax credits, deferral of employer-side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified, improvement property. As of November 26, 2022, the Company deferred $0.4 million of employer-side social security tax payments, which will be paid by December 31, 2022. The Company has estimated and recorded the overall effects of the CARES Act and does not anticipate a material change.

9. FAIR VALUE MEASUREMENTS

Investments are measured at fair value. The Company had investments of $5.0 million as of November 26, 2022 and $5.0 million as of May 28, 2022.

10. RELATED PARTY TRANSACTION

On June 15, 2015, the Company entered into a lease agreement for the IMES facility with LDL, LLC. That lease agreement was extended for five years in fiscal 2021. The Company shall be entitled to extend the term of the lease for a period of an additional five years by notifying the landlord in writing of its intention to do so within six months of the expiration of the term. The Executive Vice President of IMES, Lee A. McIntyre III (former owner of IMES), has an ownership interest in LDL, LLC. Mr. McIntyre departed from the Company in the second quarter of fiscal year 2023. The lease agreement provides for monthly payments over five years with total future minimum lease payments of $0.4 million. Rental expense related to this lease amounted to less than $0.1 million for the six months ended November 26, 2022 and November 27, 2021.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this report may constitute “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. The terms “may”, “should”, “could”, “anticipate”, “believe”, “continues”, “estimate”, “expect”, “intend”, “objective”, “plan”, “potential”, “project” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These statements are based on management’s current expectations, intentions or beliefs and are subject to a number of factors, assumptions and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause or contribute to such differences or that might otherwise impact the business include; economic, labor and political systems and conditions; global business disruption caused by the Russia invasion in Ukraine and related sanctions: currency exchange fluctuations; and the ability of the Company to manage its growth and the risk factors set forth in our Annual Report on Form 10-K filed with the SEC on August 1, 2022. We undertake no obligation to update any such factor or to publicly announce the results of any revisions to any forward-looking statements contained herein whether as a result of new information, future events or otherwise.

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

INTRODUCTION

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to assist the reader in better understanding our business, results of operations, financial condition, changes in financial condition and significant developments. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes appearing elsewhere in this filing. This section is organized as follows:

- **Business Overview**
- **Results of Operations** – an analysis and comparison of our consolidated results of operations for the three and six month periods ended November 26, 2022 and November 27, 2021, as reflected in our consolidated statements of comprehensive income.
- **Liquidity, Financial Position and Capital Resources** – a discussion of our primary sources and uses of cash for the six month periods ended November 26, 2022 and November 27, 2021, and a discussion of changes in our financial position.

Business Overview

Richardson Electronics, Ltd. is a leading global manufacturer of engineered solutions, power grid and microwave tubes, and related consumables; power conversion and RF and microwave components; high-value replacement parts, tubes, and service training for diagnostic imaging equipment; and customized display solutions. More than 60% of our products are manufactured in LaFox, Illinois, Marlborough, Massachusetts, or Donaueschingen, Germany, or by one of our manufacturing partners throughout the world. All our partners manufacture to our strict specifications and per our supplier code of conduct. We serve customers in the alternative energy, healthcare, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. The Company’s strategy is to provide specialized technical expertise and “engineered solutions” based on our core engineering and manufacturing capabilities. The Company provides solutions and adds value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair through its global infrastructure.

Some of the Company's products are manufactured in China and are imported into the United States. The Office of the United States Trade Representative ("USTR") instituted additional 10% to 25% tariffs on the importation of a number of products into the United States from China effective July 6, 2018, with additional products added August 23, 2018 and September 24, 2018. These additional tariffs are a response to what the USTR considers to be certain unfair trade practices by China. A number of the Company's products manufactured in China are now subject to these additional duties of 25% when imported into the United States.

Management continues to work with its suppliers as well as its customers to mitigate the impact of the tariffs on our customers’ markets. However, if the Company is unable to successfully pass through the additional cost of these tariffs, or if the higher prices reduce demand for the Company's products, it will have a negative effect on the Company's sales and gross margins.

The Company began reporting the results for its new Green Energy Solutions ("GES") segment in the first quarter of fiscal 2023 due to its focus on the power applications that support the green energy market. The GES segment has been carved out of our existing Power and Microwave Technologies (“PMT”) segment. Accordingly, the Company is reporting its financial performance based on four operating and reportable segments. The results for fiscal 2022 presented herein were adjusted to reflect the presentation of the new GES segment separately from the PMT segment.

The Company's four operating and reportable segments are defined as follows:

Power and Microwave Technologies combines our core engineered solutions capabilities, power grid and microwave tube business with new disruptive RF, Wireless and Power technologies. As a designer, manufacturer, technology partner and authorized distributor, PMT's strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. PMT's focus is on products for power, RF and microwave applications for customers in 5G, aviation, broadcast, communications, industrial, marine, medical, military, scientific and semiconductor markets. PMT focuses on various applications including broadcast transmission, CO2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar and radiation oncology. PMT also offers its customers technical services for both microwave and industrial equipment.

Green Energy Solutions combines our key technology partners and engineered solutions capabilities to design and manufacture key products for the fast-growing energy storage market and power management applications. As a designer, manufacturer, technology partner and authorized distributor, GES's strategy is to provide specialized technical expertise and engineered solutions using our core design engineering and manufacturing capabilities on a global basis. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics and aftermarket technical service and repair—all through our existing global infrastructure. GES's focus is on products for numerous green energy applications such as wind, solar, hydrogen and Electric Vehicles, and other power management applications that support green solutions such as synthetic diamond manufacturing.

Canvys provides customized display solutions serving the corporate enterprise, financial, healthcare, industrial and medical original equipment manufacturers markets. Our engineers design, manufacture, source and support a full spectrum of solutions to match the needs of our customers. We offer long term availability and proven custom display solutions that include touch screens, protective panels, custom enclosures, All-In-One computers, specialized cabinet finishes and application specific software packages and certification services. Our volume commitments are lower than the large display manufacturers, making us the ideal choice for companies with very specific design requirements. We partner with both private label manufacturing companies and leading branded hardware vendors to offer the highest quality display and touch solutions and customized computing platforms.

Healthcare manufactures, repairs, refurbishes and distributes high value replacement parts and equipment for the healthcare market including hospitals, medical centers, asset management companies, independent service organizations and multi-vendor service providers. Products include diagnostic imaging replacement parts for CT and MRI systems; replacement CT and MRI tubes; CT service training; MRI coils, cold heads and RF amplifiers; hydrogen thyratrons, klystrons, magnetrons; flat panel detector upgrades; pre-owned CT systems; and additional replacement solutions currently under development for the diagnostic imaging service market. Through a combination of newly developed products and partnerships, service offerings and training programs, we believe we can help our customers improve efficiency while lowering the cost of healthcare delivery.

Refer to Note 7, *Segment Reporting*, to our unaudited consolidated financial statements for additional information on the changes in operating and reportable segments.

We currently have operations in the following major geographic regions: North America, Asia/Pacific, Europe and Latin America.

RESULTS OF OPERATIONS

Financial Summary – Three Months Ended November 26, 2022

- The second quarter of fiscal 2023 and fiscal 2022 each contained 13 weeks.
- Net sales during the second quarter of fiscal 2023 were $65.9 million, an increase of 22.1%, compared to net sales of $54.0 million during the second quarter of fiscal 2022.
- Gross margin increased to 33.2% during the second quarter of fiscal 2023 compared to 32.7% during the second quarter of fiscal 2022.
- Selling, general and administrative expenses were $14.7 million or 22.3% of net sales, during the second quarter of fiscal 2023 compared to $13.1 million, or 24.3% of net sales, during the second quarter of fiscal 2022.
- Operating income during the second quarter of fiscal 2023 was $7.2 million compared to $4.5 million during the second quarter of fiscal 2022.
- Net income during the second quarter of fiscal 2023 was $5.5 million compared to $4.1 million during the second quarter of fiscal 2022.

Financial Summary – Six Months Ended November 26, 2022

- The first six months of fiscal 2023 and fiscal 2022 each contained 26 weeks.
- Net sales during the first six months of fiscal 2023 were $133.5 million, an increase of 23.9%, compared to net sales of $107.7 million during the first six months of fiscal 2022.
- Gross margin increased to 33.6% during the first six months of fiscal 2023 compared to 31.5% during the first six months of fiscal 2022.
- Selling, general and administrative expenses were $28.9 million or 21.7% of net sales, during the first six months of fiscal 2023 compared to $26.6 million, or 24.7% of net sales, during the first six months of fiscal 2022.
- Operating income during the first six months of fiscal 2023 was $16.0 million compared to $7.3 million during the first six months of fiscal 2022.
- Net income during the six months of fiscal 2023 was $11.9 million compared to $6.8 million during the first six months of fiscal 2022.

As previously disclosed, we made certain changes in our reporting structure for fiscal 2023. As a result of these changes, we revised our reportable segments as further discussed in Note 7, *Segment Reporting*, to our unaudited consolidated financial statements. For comparability purposes, segment reporting for the prior periods have been adjusted to conform to the current presentation.

Net Sales and Gross Profit Analysis

Net sales by segment and percent change during the second quarter and first six months of fiscal 2023 and fiscal 2022 were as follows (*in thousands*):

Net Sales	**Three Months Ended**		**FY23 vs. FY22**
	November 26, 2022	**November 27, 2021**	**% Change**
PMT	$ 40,585	$ 36,826	10.2%
GES	12,293	4,911	150.3%
Canvys	10,079	9,150	10.2%
Healthcare	2,948	3,092	-4.7%
Total	$ 65,905	$ 53,979	22.1%

	Six Months Ended		**FY23 vs. FY22**
	November 26, 2022	**November 27, 2021**	**% Change**
PMT	$ 85,939	$ 77,261	11.2%
GES	20,804	7,485	177.9%
Canvys	20,492	17,591	16.5%
Healthcare	6,227	5,346	16.5%
Total	$ 133,462	$ 107,683	23.9%

During the second quarter of fiscal 2023, consolidated net sales increased 22.1% compared to the second quarter of fiscal 2022. Sales for PMT increased 10.2%, sales for GES increased 150.3%, sales for Canvys increased 10.2% and sales for Healthcare decreased 4.7%. The increase in PMT was mainly due to strong growth in both the semi-wafer fabrication industry and the RF and Microwave products. The increase in GES was mainly due to growth in our ULTRA3000 and other related product sales into the wind turbine industry and from customers manufacturing synthetic diamonds. GES also had increased sales into the Electric Vehicle market including electric cars and locomotives. The increase in Canvys was primarily due to strong sales in the North American market. The decrease in Healthcare was due to lower part sales which were partially offset by increased sales of equipment and CT tubes.

During the first six months of fiscal 2023, consolidated net sales increased 23.9% compared to the first six months of fiscal 2022. Sales for PMT increased 11.2%, sales for GES increased 177.9%, sales for Canvys increased 16.5% and sales for Healthcare increased 16.5%. The increase in PMT was mainly due to strong growth in the semi-wafer fabrication industry. The increase in GES was mainly due to growth in our ULTRA3000 and other related product sales into the wind turbine industry and from customers manufacturing synthetic diamonds. GES also had increased sales into the Electric Vehicle market including electric cars and locomotives. The increase in Canvys was primarily due to strong sales in the North American market. The increase in Healthcare was due to increased sales in all major products lines.

Gross profit by segment and percent of net sales for the second quarter and first six months of fiscal 2023 and fiscal 2022 were as follows (*in thousands*):

Gross Profit	**Three Months Ended**			
	November 26, 2022	**% of Net Sales**	**November 27, 2021**	**% of Net Sales**
PMT	$ 14,011	34.5%	$ 12,399	33.7%
GES	4,162	33.9%	1,587	32.3%
Canvys	2,995	29.7%	2,912	31.8%
Healthcare	683	23.2%	759	24.5%
Total	$ 21,851	33.2%	$ 17,657	32.7%

	Six Months Ended			
	November 26, 2022	**% of Net Sales**	**November 27, 2021**	**% of Net Sales**
PMT	$ 29,546	34.4%	$ 24,586	31.8%
GES	7,184	34.5%	2,331	31.1%
Canvys	6,261	30.6%	5,730	32.6%
Healthcare	1,887	30.3%	1,307	24.4%
Total	$ 44,878	33.6%	$ 33,954	31.5%

Gross profit reflects the distribution and manufacturing product margin less manufacturing variances, inventory obsolescence charges, customer returns, scrap and cycle count adjustments, engineering costs and other provisions.

Consolidated gross profit increased to $21.9 million during the second quarter of fiscal 2023 compared to $17.7 million during the second quarter of fiscal 2022. Consolidated gross margin as a percentage of net sales increased to 33.2% during the second quarter of fiscal 2023 from 32.7% during the second quarter of fiscal 2022, primarily due to product mix in PMT and product mix and manufacturing efficiencies in GES. The unfavorable product mix and foreign currency effects in Canvys and unfavorable product mix in Healthcare partially offset the favorable gross margin impact for PMT and GES.

Consolidated gross profit increased to $44.9 million during the first six months of fiscal 2023 compared to $34.0 million during the first six months of fiscal 2022. Consolidated gross margin as a percentage of net sales increased to 33.6% during the first six months of fiscal 2023 from 31.5% during the first six months of fiscal 2022, primarily due to product mix in PMT, product mix and manufacturing efficiencies in GES, and decreased component scrap expense and improved manufacturing absorption in Healthcare. The unfavorable product mix and foreign currency effects in Canvys partially offset the favorable gross margin impact for PMT, GES and Healthcare.

Power and Microwave Technologies

PMT net sales increased 10.2% to $40.6 million during the second quarter of fiscal 2023 from $36.8 million during the second quarter of fiscal 2022. The increase was mainly due to strong growth in both the semi-wafer fabrication industry and the RF and Microwave products for various applications. Gross margin as a percentage of net sales increased to 34.5% during the second quarter of fiscal 2023 as compared to 33.7% during the second quarter of fiscal 2022 due to product mix.

PMT net sales increased 11.2% to $85.9 million during the first six months of fiscal 2023 from $77.3 million during the first six months of fiscal 2022. The increase was mainly due to strong growth in the semi-wafer fabrication industry. Gross margin as a percentage of net sales increased to 34.4% during the first six months of fiscal 2023 as compared to 31.8% during the first six months of fiscal 2022 due to product mix.

Green Energy Solutions

GES net sales increased 150.3% to $12.3 million during the second quarter of fiscal 2023 from $4.9 million during the second quarter of fiscal 2022. The increase was mainly due to growth in our ULTRA3000 and other related product sales into the wind turbine industry and from customers manufacturing synthetic diamonds. We also saw an increase in sales into the Electric Vehicle market including both electric cars and locomotives. Gross margin as a percentage of net sales increased to 33.9% during the second quarter of fiscal 2023 as compared to 32.3% during the second quarter of fiscal 2022 due to improved manufacturing efficiencies and product mix.

GES net sales increased 177.9% to $20.8 million during the first six months of fiscal 2023 from $7.5 million during the first six months of fiscal 2022. The increase was mainly due to growth in our ULTRA3000 and other related product sales into the wind turbine industry and from customers manufacturing synthetic diamonds. We also saw an increase in sales into the Electric Vehicle market including both electric cars and locomotives. Gross margin as a percentage of net sales increased to 34.5% during the first six months of fiscal 2023 as compared to 31.1% during the first six months of fiscal 2022 due to improved manufacturing efficiencies and product mix.

Canvys

Canvys net sales increased 10.2% to $10.1 million during the second quarter of fiscal 2023 from $9.2 million during the second quarter of fiscal 2022, primarily due to strong sales in the North American market. Gross margin as a percentage of net sales decreased to 29.7% during the second quarter of fiscal 2023 from 31.8% during the second quarter of fiscal 2022 primarily due to product mix and foreign currency effects.

Canvys net sales increased 16.5% to $20.5 million during the first six months of fiscal 2023 from $17.6 million during the first six months of fiscal 2022 primarily due to strong sales in the North American market. Gross margin as a percentage of net sales decreased to 30.6% during the first six months of fiscal 2023 from 32.6% during the first six months of fiscal 2022 primarily due to product mix and foreign currency effects.

Healthcare

Healthcare net sales decreased 4.7% to $2.9 million during the second quarter of fiscal 2023 from $3.1 million during the second quarter of fiscal 2022 due to a decrease in part sales partially offset by increases in equipment sales and CT tubes. Gross margin as a percentage of net sales decreased to 23.2% during the second quarter of fiscal 2023 as compared to 24.5% during the second quarter of fiscal 2022 primarily due to product mix.

Healthcare net sales increased 16.5% to $6.2 million during the first six months of fiscal 2023 from $5.3 million during the first six months of fiscal 2022 due to increases in all major Healthcare product lines. Gross margin as a percentage of net sales increased to 30.3% during the first six months of fiscal 2023 as compared to 24.4% during the first six months of fiscal 2022 primarily due to improved manufacturing absorption and decreased component scrap expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased to $14.7 million during the second quarter of fiscal 2023 from $13.1 million in the second quarter of fiscal 2022. The increase was mainly due to higher employee compensation expenses, including incentive expense from higher operating income and higher travel expenses. However, as a percentage of net sales, SG&A for the second quarter of fiscal 2023 decreased to 22.3% compared to 24.3% for the second quarter of fiscal 2022.

Selling, general and administrative expenses increased to $28.9 million during the first six months of fiscal 2023 from $26.6 million in the first six months of fiscal 2022. The increase was mainly due to higher employee compensation expenses, including incentive expense from higher operating income and higher travel expenses. However, as a percentage of net sales, SG&A for the first six months of fiscal 2023 decreased to 21.7% compared to 24.7% for the first six months of fiscal 2022.

Other Income/Expense

Other expense was $0.1 million during the second quarter of fiscal 2023, compared to other income of $0.2 million for the second quarter of fiscal 2022. Other expense during the second quarter of fiscal 2023 was mainly attributable to foreign exchange. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Other expense was $0.5 million during the first six months of fiscal 2023, compared to other income of $0.1 million for the first six months of fiscal 2022. Other expense during the first six months of fiscal 2023 was mainly attributable to foreign exchange. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Income Tax Provision

The income tax provision was $1.5 million and $0.6 million for the second quarter of fiscal 2023 and for the second quarter of fiscal 2022, respectively. The effective income tax rate during the second quarter of fiscal 2023 was a tax provision of 21.5% as compared to a tax provision of 11.8% during the second quarter of fiscal 2022. The difference in rate during the second quarter of fiscal 2023 as compared to the second quarter of fiscal 2022 reflects changes in the valuation allowance recorded at year end fiscal 2022, absence of Net Operating Losses ("NOL") for utilization in fiscal 2023, our geographical distribution of income (loss), which is primarily driven by an increase in U.S. earnings for fiscal 2023 and a state income tax provision.

We recorded an income tax provision of $3.6 million and $0.7 million for the first six months of fiscal 2023 and the first six months of fiscal 2022, respectively. The effective income tax rate during the first six months of fiscal 2023 was a tax provision of 23.4% as compared to a tax provision of 9.6% during the first six months of fiscal 2022. The difference in rate during the first six months of fiscal 2023 as compared to the first six months of fiscal 2022 reflects changes in the valuation allowance recorded at year end fiscal 2022, absence of Net Operating Losses ("NOL") for utilization in fiscal 2023, our geographical distribution of income (loss), which is primarily driven by an increase in U.S. earnings for fiscal 2023 and a state income tax provision. The 23.4% effective income tax rate differs from the federal statutory rate of 21% as a result of our geographical distribution of income (loss), which is primarily driven by an increase in U.S. earnings for fiscal 2023 and a state income tax provision.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2017 are closed for examination under the statute of limitation for U.S. federal, U.S. state and local or non-U.S. tax jurisdictions. We were under examination for fiscal 2015 through fiscal 2018 in Germany. The audit was settled in the fourth quarter of fiscal 2022. In the second quarter of fiscal 2023, the Company paid the audit assessment for the fiscal 2015 through fiscal 2018 years. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany beginning in fiscal 2019 and the Netherlands beginning in fiscal 2021.

Net Income and Per Share Data

Net income during the second quarter of fiscal 2023 was $5.5 million, or $0.39 per diluted common share and $0.35 per Class B diluted common share as compared to $4.1 million during the second quarter of fiscal 2022 or $0.30 per diluted common share and $0.27 per Class B diluted common share.

Net income during the first six months of fiscal 2023 was $11.9 million, or $0.83 per diluted common share and $0.75 per Class B diluted common share as compared to $6.8 million during the first six months of fiscal 2022 or $0.50 per diluted common share and $0.45 per Class B diluted common share.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

Our operations and cash needs have been primarily financed through income from operations and cash on hand.

Cash, cash equivalents and investments were $31.1 million at November 26, 2022. Cash, cash equivalents and investments by geographic area at November 26, 2022 consisted of $13.7 million in North America, $9.1 million in Europe, $1.4 million in Latin America and $6.9 million in Asia/Pacific. No funds were repatriated to the United States in the first six months of fiscal 2023. However, we anticipate repatriation of funds to the United States in subsequent quarters. Although the Tax Cuts and Jobs Act generally eliminated federal income tax on future cash repatriation to the United States, cash repatriation may be subject to state and local taxes, withholding or similar taxes. See Note 7, *Income Taxes* of the notes to our consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended May 28, 2022, filed with the SEC on August 1, 2022 for further information.

Cash, cash equivalents and investments were $40.5 million at May 28, 2022. Cash, cash equivalents and investments by geographic area at May 28, 2022 consisted of $25.7 million in North America, $6.0 million in Europe, $1.5 million in Latin America and $7.3 million in Asia/Pacific. We repatriated a total of $1.5 million to the United States in fiscal 2022 from our foreign entities. This amount includes $0.7 million in the first quarter from our entity in China, $0.3 million in the second quarter from our entity in Taiwan and $0.5 million in the third quarter from our entity in Japan.

Our short-term and long-term liquidity requirements primarily arise from: (i) working capital requirements, (ii) capital expenditure needs and (iii) cash dividend payments (if and when declared by our Board of Directors). Our ability to fund these requirements will depend, in part, on our future cash flows, which are determined by our future operating performance and, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control. The Company continues to monitor the impact of COVID-19, including the extent, duration and effectiveness of containment actions taken, the speed and extent of vaccination programs, the impact of the pandemic on its supply chain, manufacturing and distribution operations, customers and employees, as well as the U.S. economy in general. However, due to the uncertain and constantly evolving impacts of the COVID-19 pandemic across the globe, the Company cannot currently predict the long-term impact on its operations and financial results. The uncertainties associated with the COVID-19 pandemic and its effects include potential adverse effects on the overall economy, the Company's supply chain, transportation services, employees and customers. The COVID-19 pandemic and its effects could adversely affect the Company's revenues, earnings, liquidity and cash flows and may require significant actions in response, including expense reductions. Conditions surrounding COVID-19 change rapidly and additional impacts of which the Company is not currently aware may arise. Based on past performance and current expectations, we believe that the existing sources of liquidity, including current cash, will provide sufficient resources to meet known capital requirements and working capital needs through the next twelve months. Additionally, while our future capital requirements will depend on many factors, including, but not limited to, the economy and the outlook for growth in our markets, we believe our existing sources of liquidity as well as our ability to generate operating cash flows will satisfy our future obligations and cash requirements.

Cash Flows from Operating Activities

Cash flows from operating activities primarily resulted from our net income adjusted for non-cash items and changes in our operating assets and liabilities.

Operating activities used $7.2 million of cash during the first six months of fiscal 2023. We had a net income of $11.9 million during the first six months of fiscal 2023, which included non-cash stock-based compensation expense of $0.5 million associated with the issuance of stock option and restricted stock awards, inventory reserve provisions of $0.2 million and depreciation and amortization expense of $1.8 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities used $21.5 million in cash during the first six months of fiscal 2023, net of foreign currency exchange gains and losses, included an increase in accounts receivable of $5.5 million, an increase in inventory of $18.1 million and an increase in prepaid expenses of $0.4 million. Partially offsetting the cash utilization for accounts receivable, inventory and prepaid expenses was an increase in accounts payable and accrued liabilities of $1.9 million. The increase in accounts receivable was primarily due to increased sales. The majority of the inventory increase was to support the product growth in LaFox manufacturing, Green Energy Solutions and Canvys, in addition to increases in the inventory for electron tubes. The increase in accounts payable was related to the inventory increase and the increase in accrued liabilities was timing related.

Operating activities used $0.2 million of cash during the first six months of fiscal 2022. We had a net income of $6.8 million during the first half of fiscal 2022, which included non-cash stock-based compensation expense of $0.4 million associated with the issuance of stock option and restricted stock awards, $0.1 million for inventory reserve provisions and depreciation and amortization expense of $1.7 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities used $9.2 million in cash during the first six months of fiscal 2022, net of foreign currency exchange gains and losses, included an increase in accounts receivable of $3.1 million, an increase in inventory of $9.2 million and an increase in prepaid expenses of $1.1 million. Partially offsetting the cash utilization for accounts receivable, inventory and prepaid expenses was an increase in accounts payable and accrued liabilities of $3.8 million. The increase in accounts receivable was primarily due to increased sales revenue. The majority of the inventory increase was to support the growth in LaFox manufacturing and the RF and microwave components business. The increase in accounts payable was related to the inventory increase and the increase in accrued liabilities was timing related.

Cash Flows from Investing Activities

Cash flows from investing activities consisted primarily of capital expenditures and purchases and maturities of investments. Our purchases and proceeds from investments consist of time deposits and CDs. The purchasing of future investments varies from period to period due to interest and foreign currency exchange rates.

Cash used in investing activities of $2.6 million during the first six months of fiscal 2023 was mainly due to capital expenditures. Capital expenditures were primarily related to our IT system, as well as our LaFox manufacturing business and facilities, which also supports both EDG and Green Energy Solutions. The Company did not have any investment purchases or maturities in the first six months of fiscal 2023.

Cash used in investing activities of $1.6 million during the first six months of fiscal 2022 was due to capital expenditures. Capital expenditures related primarily to capital used for our Healthcare business, IT system and manufacturing facilities. The Company did not have any investment purchases or maturities in the first half of fiscal 2022.

Cash Flows from Financing Activities

Cash flows used in financing activities consisted primarily of cash dividends and cash flows provided by financing activities consisted primarily of the proceeds from the issuance of stock.

Cash provided by financing activities of $1.2 million during the first six months of fiscal 2023 primarily resulted from the $2.9 million proceeds from the issuance of stock less the $1.7 million of dividend payments to stockholders.

Cash used in financing activities of $0.9 million during the first six months of fiscal 2022 were due to dividend payments of $1.6 million with a partial offset for the proceeds from the issuance of stock of $0.7 million.

All future payments of dividends are at the discretion of the Board of Directors. Dividend payments will depend on earnings, capital requirements, operating conditions and such other factors that the Board may deem relevant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management and Market Sensitive Financial Instruments

We are exposed to many different market risks with the various industries we serve. The primary financial risk we are exposed to is foreign currency exchange, as certain operations, assets and liabilities of ours are denominated in foreign currencies. We manage these risks through normal operating and financing activities.

The interpretation and analysis of these disclosures should not be considered in isolation since such variances in exchange rates would likely influence other economic factors. Such factors, which are not readily quantifiable, would likely also affect our operations. Additional disclosure regarding various market risks are set forth in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended May 28, 2022, filed with the SEC on August 1, 2022.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of November 26, 2022.

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the second quarter of fiscal 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended May 28, 2022, filed with the SEC on August 1, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Index

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Annex III of the Proxy Statement dated August 22, 2014).
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2017).
31.1	Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2023, filed with the SEC on January 5, 2023, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Comprehensive Income, (iii) the Unaudited Consolidated Statements of Cash Flows, (iv) the Unaudited Consolidated Statement of Stockholders' Equity and (v) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

RICHARDSON ELECTRONICS, LTD.

Date: January 5, 2023

By: /s/ Robert J. Ben
Robert J. Ben
Chief Financial Officer and Chief Accounting Officer
(on behalf of the Registrant and as Principal
Financial Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Edward J. Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Richardson Electronics, Ltd. for the period ended November 26, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2023

Signature: /s/ Edward J. Richardson

Edward J. Richardson
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Ben, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Richardson Electronics, Ltd. for the period ended November 26, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2023

Signature: /s/ Robert J. Ben

Robert J. Ben
Chief Financial Officer and Chief Accounting Officer

Exhibit 32

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Richardson Electronics, Ltd. (the "Company") on Form 10-Q for the period ended November 26, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Richardson, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Edward J. Richardson
Edward J. Richardson
Chairman of the Board and Chief Executive Officer
January 5, 2023

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Richardson Electronics, Ltd. (the "Company") on Form 10-Q for the period ended November 26, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Ben, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Robert J. Ben
Robert J. Ben
Chief Financial Officer and Chief Accounting Officer
January 5, 2023