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 February 25, 2023

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 April 4, 2023, there were outstanding 12,085,774 shares of Common Stock, $0.05 par value and 2,051,488 shares of Class B Common Stock, $0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Unaudited February 25, 2023	Audited May 28, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 24,645	$ 35,495
Accounts receivable, less allowance of $189 and $186, respectively	42,151	29,878
Inventories, net	101,409	80,390
Prepaid expenses and other assets	2,639	2,448
Investments - current	—	5,000
Total current assets	**170,844**	**153,211**
Non-current assets:		
Property, plant and equipment, net	19,335	16,961
Intangible assets, net	1,957	2,010
Lease ROU asset	2,378	3,239
Other non-current assets	339	—
Non-current deferred income taxes	4,350	4,398
Total non-current assets	**28,359**	**26,608**
Total assets	**$ 199,203**	**$ 179,819**
Liabilities		
Current liabilities:		
Accounts payable	$ 24,686	$ 23,987
Accrued liabilities	16,502	16,110
Lease liability current	996	1,109
Total current liabilities	**42,184**	**41,206**
Non-current liabilities:		
Non-current deferred income tax liabilities	84	85
Lease liability non-current	1,382	1,915
Other non-current liabilities	613	766
Total non-current liabilities	**2,079**	**2,766**
Total liabilities	**44,263**	**43,972**
Stockholders' Equity		
Common stock, $0.05 par value; issued and outstanding 12,085 shares on February 25, 2023 and 11,649 shares on May 28, 2022	604	582
Class B common stock, convertible, $0.05 par value; issued and outstanding 2,052 shares on February 25, 2023 and 2,053 shares on May 28, 2022	103	103
Preferred stock, $1.00 par value, no shares issued	—	—
Additional paid-in-capital	70,383	66,331
Retained earnings	83,760	68,031
Accumulated other comprehensive income	90	800
Total stockholders' equity	**154,940**	**135,847**
Total liabilities and stockholders' equity	**$ 199,203**	**$ 179,819**

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

	Three Months Ended		Nine Months Ended	
	February 25, 2023	**February 26, 2022**	**February 25, 2023**	**February 26, 2022**
Net sales	$ 70,364	$ 55,308	$ 203,826	$ 162,991
Cost of sales	47,959	37,739	136,543	111,468
Gross profit	**22,405**	**17,569**	**67,283**	**51,523**
Selling, general and administrative expenses	14,779	13,946	43,704	40,550
Loss (gain) on disposal of assets	13	—	(12)	2
Operating income	**7,613**	**3,623**	**23,591**	**10,971**
Other expense (income):				
Investment/interest income	(76)	(11)	(179)	(36)
Foreign exchange (income) loss	(292)	121	305	(2)
Other, net	(14)	17	(29)	39
Total other (income) expense	(382)	127	97	1
Income before income taxes	7,995	3,496	23,494	10,970
Income tax provision	1,655	609	5,281	1,326
Net income	**6,340**	**2,887**	**18,213**	**9,644**
Foreign currency translation gain (loss), net of tax	629	69	(710)	(2,353)
Comprehensive income	**$ 6,969**	**$ 2,956**	**$ 17,503**	**$ 7,291**
Net income per share:				
Common shares - Basic	$ 0.46	$ 0.22	$ 1.33	$ 0.73
Class B common shares - Basic	0.41	0.19	1.19	0.66
Common shares - Diluted	0.44	0.21	1.27	0.71
Class B common shares - Diluted	0.40	0.19	1.15	0.64
Weighted average number of shares:				
Common shares – Basic	12,047	11,497	11,893	11,320
Class B common shares – Basic	2,052	2,074	2,053	2,089
Common shares – Diluted	12,666	12,027	12,524	11,724
Class B common shares – Diluted	2,052	2,074	2,053	2,089
Dividends per share:				
Common share	$ 0.060	$ 0.060	$ 0.180	$ 0.180
Class B common share	0.054	0.054	0.162	0.162

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

	Three Months Ended		Nine Months Ended	
	February 25, 2023	**February 26, 2022**	**February 25, 2023**	**February 26, 2022**
Operating activities:				
Net income	$ 6,340	$ 2,887	$ 18,213	$ 9,644
Adjustments to reconcile net income to cash used in operating activities:				
Depreciation and amortization	912	872	2,688	2,560
Inventory provisions	115	88	310	228
Share-based compensation expense	206	142	730	514
Loss (gain) on disposal of assets	13	—	(12)	2
Deferred income taxes	(1)	26	27	38
Change in assets and liabilities:				
Accounts receivable	(7,189)	(4,209)	(12,694)	(7,355)
Inventories	(3,638)	(3,113)	(21,764)	(12,295)
Prepaid expenses and other assets	(153)	(2)	(578)	(1,058)
Accounts payable	(12)	1,902	784	4,204
Accrued liabilities	(661)	563	486	2,075
Other	(192)	(370)	397	(13)
Net cash used in operating activities	**(4,260)**	**(1,214)**	**(11,413)**	**(1,456)**
Investing activities:				
Capital expenditures	(2,230)	(554)	(4,973)	(2,161)
Proceeds from maturity of investments	5,000	—	5,000	—
Proceeds from sale of assets	—	—	193	—
Net cash provided by (used in) investing activities	**2,770**	**(554)**	**220**	**(2,161)**
Financing activities:				
Proceeds from issuance of common stock	511	1,906	3,413	2,630
Cash dividends paid	(834)	(806)	(2,484)	(2,384)
Other	—	(45)	(69)	(136)
Net cash (used in) provided by financing activities	**(323)**	**1,055**	**860**	**110**
Effect of exchange rate changes on cash and cash equivalents	352	195	(517)	(662)
Decrease in cash and cash equivalents	**(1,461)**	**(518)**	**(10,850)**	**(4,169)**
Cash and cash equivalents at beginning of period	26,106	39,665	35,495	43,316
Cash and cash equivalents at end of period	**$ 24,645**	**$ 39,147**	**$ 24,645**	**$ 39,147**

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	—	—	—	—	18,213	—	18,213
Foreign currency translation	—	—	—	—	—	(710)	(710)
Share-based compensation:							
Restricted stock	—	—	—	402	—	—	402
Stock options	—	—	—	328	—	—	328
Common stock:							
Options exercised	386	—	20	3,393	—	—	3,413
Restricted stock issuance	49	—	2	(71)	—	—	(69)
Class B converted to Common	1	(1)	—	—	—	—	—
Dividends paid to:							
Common ($0.180 per share)	—	—	—	—	(2,152)	—	(2,152)
Class B ($0.162 per share)	—	—	—	—	(332)	—	(332)
Balance February 25, 2023	**12,085**	**2,052**	**$ 707**	**$ 70,383**	**$ 83,760**	**$ 90**	**$ 154,940**
Balance November 26, 2022:	**12,022**	**2,052**	**$ 704**	**$ 69,669**	**$ 78,254**	**$ (539)**	**$ 148,088**
Comprehensive income:							
Net income	—	—	—	—	6,340	—	6,340
Foreign currency translation	—	—	—	—	—	629	629
Share-based compensation:							
Restricted stock	—	—	—	140	—	—	140
Stock options	—	—	—	66	—	—	66
Common stock:							
Options exercised	63	—	3	508	—	—	511
Dividends paid to:							
Common ($0.060 per share)	—	—	—	—	(724)	—	(724)
Class B ($0.054 per share)	—	—	—	—	(110)	—	(110)
Balance February 25, 2023	**12,085**	**2,052**	**$ 707**	**$ 70,383**	**$ 83,760**	**$ 90**	**$ 154,940**

	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	—	—	—	—	9,644	—	9,644
Foreign currency translation	—	—	—	—	—	(2,353)	(2,353)
Share-based compensation:							
Restricted stock	—	—	—	339	—	—	339
Stock options	—	—	—	175	—	—	175
Common stock:							
Options exercised	331	—	16	2,614	—	—	2,630
Restricted stock issuance	73	—	4	(4)	—	—	—
Class B converted	44	(44)	—	—	—	—	—
Dividends paid to:							
Common ($0.180 per share)	—	—	—	—	(2,047)	—	(2,047)
Class B ($0.162 per share)	—	—	—	—	(337)	—	(337)
Balance February 26, 2022	**11,608**	**2,053**	**$ 683**	**$ 65,831**	**$ 60,557**	**$ 2,540**	**$ 129,611**
Balance November 27, 2021:	**11,338**	**2,097**	**$ 672**	**$ 63,794**	**$ 58,476**	**$ 2,471**	**$ 125,413**
Comprehensive income:							
Net income	—	—	—	—	2,887	—	2,887
Foreign currency translation	—	—	—	—	—	69	69
Share-based compensation:							
Restricted stock	—	—	—	105	—	—	105
Stock options	—	—	—	37	—	—	37
Common stock:							
Options exercised	226	—	11	1,895	—	—	1,906
Class B converted	44	(44)	—	—	—	—	—
Dividends paid to:							
Common ($0.060 per share)	—	—	—	—	(695)	—	(695)
Class B ($0.054 per share)	—	—	—	—	(111)	—	(111)
Balance February 26, 2022	**11,608**	**2,053**	**$ 683**	**$ 65,831**	**$ 60,557**	**$ 2,540**	**$ 129,611**

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 third quarter of fiscal 2023 and fiscal 2022 both contained 13 weeks. The first nine months of fiscal 2023 and fiscal 2022 both contained 39 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 nine months ended February 25, 2023 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 $83.2 million of finished goods, $12.9 million of raw materials and $5.3 million of work-in-progress as of February 25, 2023, 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 $5.8 million as of February 25, 2023 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 are 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 unaudited consolidated balance sheets.

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

	May 28, 2022	**Additions**	**Revenue Recognized**	**February 25, 2023**
Contract liabilities (deferred revenue)	$ 4,966	$ 3,490	$ (5,076)	$ 3,380

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 prior 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)*:

	February 25, 2023	May 28, 2022
Gross Amounts:		
Trade Name	$ 659	$ 659
Customer Relationships[1]	3,379	3,393
Non-compete Agreements	177	177
Technology	380	230
Total Gross Amounts	$ 4,595	$ 4,459
Accumulated Amortization:		
Trade Name	$ 659	$ 659
Customer Relationships	1,609	1,453
Non-compete Agreements	177	177
Technology	193	160
Total Accumulated Amortization	$ 2,638	$ 2,449
Net Intangible Assets	$ 1,957	$ 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	$ 66
2024	253
2025	239
2026	206
2027	194
Thereafter	999
Total amortization	$ 1,957

The weighted average number of years of amortization expense remaining is 11.2 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):

	February 25, 2023	May 28, 2022
Compensation and payroll taxes	$ 4,358	$ 5,519
Accrued severance	485	678
Professional fees	868	470
Deferred revenue	3,380	4,966
Other accrued expenses	7,411	4,477
Accrued Liabilities	$ 16,502	$ 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 unaudited consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience and other available evidence. Warranty reserves were approximately $0.7 million as of February 25, 2023 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	February 25, 2023	May 28, 2022
Operating lease ROU asset	$ 2,378	$ 3,024
Financing lease ROU asset	—	215
Total lease ROU asset	$ 2,378	$ 3,239
Operating lease liability current	$ 996	$ 1,109
Operating lease liability non-current	$ 1,382	$ 1,915

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

		Three Months Ended	
		February 25, 2023	February 26, 2022
Consolidated operating lease expense	Operating expenses	$ 434	$ 452
Consolidated financing lease amortization	Operating expenses	—	23
Consolidated financing lease interest	Interest expense	—	1
Consolidated financing lease expense		—	24
Net lease cost		$ 434	$ 476

		Nine Months Ended	
		February 25, 2023	February 26, 2022
Consolidated operating lease expense	Operating expenses	$ 1,300	$ 1,353
Consolidated financing lease amortization	Operating expenses	—	69
Consolidated financing lease interest	Interest expense	—	4
Consolidated financing lease expense		—	73
Net lease cost		$ 1,300	$ 1,426

The approximate future minimum lease payments under operating leases at February 25, 2023 were as follows *(in thousands)*:

Fiscal Year	Operating Leases	
Remaining 2023	$	309
2024		992
2025		679
2026		418
2027		83
Thereafter		16
Total lease payments		2,497
Less imputed interest		119
Net minimum lease payments	$	2,378

The weighted average remaining lease terms and interest rates of leases held by the Company as of February 25, 2023 were as follows:

Lease Type	Weighted Average Remaining Lease Term in Years	Weighted Average Interest Rate
Operating leases	2.7	4.2%

The cash outflows of the leasing activity of the Company as lessee for the nine months ending February 25, 2023 and February 26, 2022 were as follows *(in thousands)*:

		Nine Months Ended			
Cash Flow Source	Classification	February 25, 2023		February 26, 2022	
Operating cash flows from operating leases	Operating activities	$	646	$	986
Operating cash flows from financing leases	Operating activities		—		133
Finance cash flows from financing leases	Financing activities		—		136

5. INCOME TAXES

We recorded an income tax provision of $5.3 million and $1.3 million for the first nine months of fiscal 2023 and the first nine months of fiscal 2022, respectively. The effective income tax rate during the first nine months of fiscal 2023 was a tax provision of 22.5% as compared to a tax provision of 12.1% during the first nine months of fiscal 2022. The difference in rate during the first nine months of fiscal 2023 as compared to the first nine 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 22.5% 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 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. The Company recorded a tax expense of less than $0.1 million due to receiving the final assessment for the German audit. The $0.1 million of uncertain tax positions recorded in prior quarters has been fully utilized as of February 25, 2023. The worldwide liability for uncertain tax positions related to continuing operations as of May 28, 2022 was $0.1 million, excluding interest and penalties. 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 February 25, 2023, but had a deferred liability of $0.1 million as of May 28, 2022.

As of February 25, 2023, 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 February 25, 2023, 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 February 26, 2022 was $9.6 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			
	February 25, 2023		February 26, 2022	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Net income	$ 6,340	$ 6,340	$ 2,887	$ 2,887
Less dividends:				
Common stock	724	724	695	695
Class B common stock	110	110	111	111
Undistributed earnings	$ 5,506	$ 5,506	$ 2,081	$ 2,081
Common stock undistributed earnings	$ 4,774	$ 4,805	$ 1,790	$ 1,801
Class B common stock undistributed earnings	732	701	291	280
Total undistributed earnings	$ 5,506	$ 5,506	$ 2,081	$ 2,081
Denominator for Basic and Diluted EPS:				
Common stock weighted average shares	12,047	12,047	11,497	11,497
Effect of dilutive securities				
Dilutive stock options		619		530
Denominator for diluted EPS adjusted for weighted average shares and assumed conversion		12,666		12,027
Class B common stock weighted average shares and shares under if-converted method for diluted EPS	2,052	2,052	2,074	2,074
Net income per share:				
Common stock	$ 0.46	$ 0.44	$ 0.22	$ 0.21
Class B common stock	$ 0.41	$ 0.40	$ 0.19	$ 0.19

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

	Nine Months Ended			
	February 25, 2023		February 26, 2022	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Net income	$ 18,213	$ 18,213	$ 9,644	$ 9,644
Less dividends:				
Common stock	2,152	2,152	2,047	2,047
Class B common stock	332	332	337	337
Undistributed earnings	$ 15,729	$ 15,729	$ 7,260	$ 7,260
Common stock undistributed earnings	$ 13,614	$ 13,707	$ 6,226	$ 6,257
Class B common stock undistributed earnings	2,115	2,022	1,034	1,003
Total undistributed earnings	$ 15,729	$ 15,729	$ 7,260	$ 7,260
Denominator for Basic and Diluted EPS:				
Common stock weighted average shares	11,893	11,893	11,320	11,320
Effect of dilutive securities				
Dilutive stock options		631		404
Denominator for diluted EPS adjusted for weighted average shares and assumed conversion		12,524		11,724
Class B common stock weighted average shares and shares under if-converted method for diluted EPS	2,053	2,053	2,089	2,089
Net income per share:				
Common stock	$ 1.33	$ 1.27	$ 0.73	$ 0.71
Class B common stock	$ 1.19	$ 1.15	$ 0.66	$ 0.64

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

7. SEGMENT REPORTING

As described in Note 1, *Description of the Company* and Note 2, *Basis of Presentation*, 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		**Nine Months Ended**	
	February 25, 2023	**February 26, 2022**	**February 25, 2023**	**February 26, 2022**
PMT				
Net Sales	$ 46,822	$ 38,381	$ 132,761	$ 115,642
Gross Profit	15,404	12,209	44,950	36,795
GES				
Net Sales	11,471	5,651	32,275	13,136
Gross Profit	2,948	1,954	10,132	4,285
Canvys				
Net Sales	9,685	8,141	30,177	25,732
Gross Profit	3,103	2,618	9,364	8,348
Healthcare				
Net Sales	2,386	3,135	8,613	8,481
Gross Profit	950	788	2,837	2,095

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		Nine Months Ended	
	February 25, 2023	**February 26, 2022**	**February 25, 2023**	**February 26, 2022**
Net Sales				
North America	$ 29,721	$ 23,647	$ 93,126	$ 68,615
Asia/Pacific	14,999	13,275	47,859	38,220
Europe	15,886	16,067	47,816	48,231
Latin America	9,771	2,380	15,077	7,976
Other (1)	(13)	(61)	(52)	(51)
Total	$ 70,364	$ 55,308	$ 203,826	$ 162,991
Gross Profit				
North America	$ 11,463	$ 8,946	$ 36,926	$ 24,984
Asia/Pacific	4,664	4,061	14,985	12,126
Europe	5,132	4,884	14,417	14,507
Latin America	2,508	917	4,410	2,998
Other (1)	(1,362)	(1,239)	(3,455)	(3,092)
Total	$ 22,405	$ 17,569	$ 67,283	$ 51,523

(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 February 25, 2023, the Company has no deferred employer-side social security tax payments. 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 no investments as of February 25, 2023 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 $0.1 million for the nine months ended February 25, 2023 and February 26, 2022.

11. SUBSEQUENT EVENT

On March 20, 2023, the Company established a senior, secured revolving credit facility agreement with a three-year term in an aggregate principal amount not to exceed $30 million, including a Swingline Loan sub-facility and a Letter of Credit sub-facility (collectively, the "Revolving Credit Facility") with PNC Bank. The Revolving Credit Facility is guaranteed by the Company's domestic subsidiaries. Proceeds of the borrowings under the Revolving Credit Facility will be used for working capital and general corporate purposes of the Company and its subsidiaries. As of the date of this report, no amounts were outstanding under the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility will bear interest at a rate per annum selected by the Company selected from the following options: (a) Term Secured Overnight Financing Rate ("SOFR") plus the applicable adjustment; (b) Base Rate plus 0.25%; (c) Daily Simple Risk-Free Rate ("RFR") for Euros plus the RFR adjustment plus 1.25%. Letters of Credit issues have a letter of credit fee of 1.25% per annum. The unused line fee with respect to the Revolving Credit Facility is 0.10% per annum.

The Credit Agreement provides that the Company must maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated fixed charge coverage ratio. The Credit Agreement also contains customary affirmative, negative and financial covenants including limitations on certain other indebtedness, loans and investments, liens, mergers, asset sales, and transactions with affiliates, as well as customary events of default for this type of financing.

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 nine month periods ended February 25, 2023 and February 26, 2022, 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 nine month periods ended February 25, 2023 and February 26, 2022, 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 February 25, 2023

- The third quarter of fiscal 2023 and fiscal 2022 each contained 13 weeks.
- Net sales during the third quarter of fiscal 2023 were $70.4 million, an increase of 27.2%, compared to net sales of $55.3 million during the third quarter of fiscal 2022.
- Gross margin remained at 31.8% during the third quarter of fiscal 2023 compared to 31.8% during the third quarter of fiscal 2022.
- Selling, general and administrative expenses were $14.8 million or 21.0% of net sales during the third quarter of fiscal 2023 compared to $13.9 million or 25.2% of net sales during the third quarter of fiscal 2022.
- Operating income during the third quarter of fiscal 2023 was $7.6 million compared to $3.6 million during the third quarter of fiscal 2022.
- Net income during the third quarter of fiscal 2023 was $6.3 million compared to $2.9 million during the third quarter of fiscal 2022.

Financial Summary – Nine Months Ended February 25, 2023

- The first nine months of fiscal 2023 and fiscal 2022 each contained 39 weeks.
- Net sales during the first nine months of fiscal 2023 were $203.8 million, an increase of 25.1%, compared to net sales of $163.0 million during the first nine months of fiscal 2022.
- Gross margin increased to 33.0% during the first nine months of fiscal 2023 compared to 31.6% during the first nine months of fiscal 2022.
- Selling, general and administrative expenses were $43.7 million or 21.4% of net sales during the first nine months of fiscal 2023 compared to $40.6 million or 24.9% of net sales during the first nine months of fiscal 2022.
- Operating income during the first nine months of fiscal 2023 was $23.6 million compared to $11.0 million during the first nine months of fiscal 2022.
- Net income during the first nine months of fiscal 2023 was $18.2 million compared to $9.6 million during the first nine months of fiscal 2022.

We issued a Press Release on March 21, 2023 in which we announced, on a preliminary basis, certain results summarized above and described in this Form 10-Q.

As previously disclosed in the notes to our financial statements, 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 third quarter and first nine months of fiscal 2023 and fiscal 2022 were as follows (*in thousands*):

Net Sales	**Three Months Ended**		**FY23 vs. FY22**
	February 25, 2023	**February 26, 2022**	**% Change**
PMT	$ 46,822	$ 38,381	22.0%
GES	11,471	5,651	103.0%
Canvys	9,685	8,141	19.0%
Healthcare	2,386	3,135	-23.9%
Total	$ 70,364	$ 55,308	27.2%

	Nine Months Ended		FY23 vs. FY22
	February 25, 2023	February 26, 2022	% Change
PMT	$ 132,761	$ 115,642	14.8%
GES	32,275	13,136	145.7%
Canvys	30,177	25,732	17.3%
Healthcare	8,613	8,481	1.6%
Total	$ 203,826	$ 162,991	25.1%

During the third quarter of fiscal 2023, consolidated net sales increased 27.2% compared to the third quarter of fiscal 2022. Sales for PMT increased 22.0%, sales for GES increased 103.0%, sales for Canvys increased 19.0% and sales for Healthcare decreased 23.9%. The increase in PMT was mainly due to strong growth in both the semi-wafer fabrication industry and the RF and Microwave products for various applications. The increase in GES was mainly due to growth in our EV locomotive battery modules and niche products for wind turbines. The increase in Canvys was primarily due to strong sales in the North American market. The decrease in Healthcare was due to decreases in part sales as well as CT tubes sold to China partially offset by an increase in equipment sales.

During the first nine months of fiscal 2023, consolidated net sales increased 25.1% compared to the first nine months of fiscal 2022. Sales for PMT increased 14.8%, sales for GES increased 145.7%, sales for Canvys increased 17.3% and sales for Healthcare increased 1.6%. The increase in PMT was mainly due to strong growth in the semi-wafer fabrication industry. The increase in GES was due to the growth in our ULTRA3000 and other related product sales into the wind turbine industry as well as increased sales into the Electric Vehicle market including both 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 increases in part sales and equipment sales partially offset by a decrease in CT tube sales.

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

Gross Profit	Three Months Ended			
	February 25, 2023	% of Net Sales	February 26, 2022	% of Net Sales
PMT	$ 15,404	32.9%	$ 12,209	31.8%
GES	2,948	25.7%	1,954	34.6%
Canvys	3,103	32.0%	2,618	32.2%
Healthcare	950	39.8%	788	25.1%
Total	$ 22,405	31.8%	$ 17,569	31.8%

	Nine Months Ended			
	February 25, 2023	% of Net Sales	February 26, 2022	% of Net Sales
PMT	$ 44,950	33.9%	$ 36,795	31.8%
GES	10,132	31.4%	4,285	32.6%
Canvys	9,364	31.0%	8,348	32.4%
Healthcare	2,837	32.9%	2,095	24.7%
Total	$ 67,283	33.0%	$ 51,523	31.6%

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 $22.4 million during the third quarter of fiscal 2023 compared to $17.6 million during the third quarter of fiscal 2022. Consolidated gross margin as a percentage of net sales remained unchanged at 31.8% during the third quarter of fiscal 2023 when compared to 31.8% during the third quarter of fiscal 2022, primarily due to product mix in PMT and improved manufacturing absorption and decreased component scrap expense in Healthcare. The unfavorable product mix and foreign currency effects in Canvys and unfavorable product mix in GES offset the favorable gross margin impact for PMT and Healthcare.

Consolidated gross profit increased to $67.3 million during the first nine months of fiscal 2023 compared to $51.5 million during the first nine months of fiscal 2022. Consolidated gross margin as a percentage of net sales increased to 33.0% during the first nine months of fiscal 2023 from 31.6% during the first nine months of fiscal 2022, primarily due to product mix in PMT and improved manufacturing absorption and decreased component scrap expense in Healthcare. The unfavorable product mix and foreign currency effects in Canvys and unfavorable product mix in GES partially offset the favorable gross margin impact for PMT and Healthcare.

Power and Microwave Technologies

PMT net sales increased 22.0% to $46.8 million during the third quarter of fiscal 2023 from $38.4 million during the third 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 32.9% during the third quarter of fiscal 2023 as compared to 31.8% during the third quarter of fiscal 2022 due to product mix.

PMT net sales increased 14.8% to $132.8 million during the first nine months of fiscal 2023 from $115.6 million during the first nine 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 33.9% during the first nine months of fiscal 2023 as compared to 31.8% during the first nine months of fiscal 2022 due to product mix.

Green Energy Solutions

GES net sales increased 103.0% to $11.5 million during the third quarter of fiscal 2023 from $5.7 million during the third quarter of fiscal 2022. The increase was mainly due to growth in our EV locomotive battery modules and niche products for wind turbines. Gross margin as a percentage of net sales decreased to 25.7% during the third quarter of fiscal 2023 as compared to 34.6% during the third quarter of fiscal 2022 due to product mix.

GES net sales increased 145.7% to $32.3 million during the first nine months of fiscal 2023 from $13.1 million during the first nine months of fiscal 2022. The increase was mainly due to growth in our ULTRA3000 and other related product sales into the wind turbine industry. 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 decreased to 31.4% during the first nine months of fiscal 2023 as compared to 32.6% during the first nine months of fiscal 2022 due to product mix.

Canvys

Canvys net sales increased 19.0% to $9.7 million during the third quarter of fiscal 2023 from $8.1 million during the third quarter of fiscal 2022, primarily due to strong sales in the North American market. Gross margin as a percentage of net sales decreased to 32.0% during the third quarter of fiscal 2023 from 32.2% during the third quarter of fiscal 2022 primarily due to product mix and foreign currency effects.

Canvys net sales increased 17.3% to $30.2 million during the first nine months of fiscal 2023 from $25.7 million during the first nine months of fiscal 2022 primarily due to strong sales in the North American market. Gross margin as a percentage of net sales decreased to 31.0% during the first nine months of fiscal 2023 from 32.4% during the first nine months of fiscal 2022 primarily due to product mix and foreign currency effects.

Healthcare

Healthcare net sales decreased 23.9% to $2.4 million during the third quarter of fiscal 2023 from $3.1 million during the third quarter of fiscal 2022 due to decreases in part sales as well as CT tubes sold to China partially offset by an increase in equipment sales. Gross margin as a percentage of net sales increased to 39.8% during the third quarter of fiscal 2023 as compared to 25.1% during the third quarter of fiscal 2022 primarily due to improved manufacturing absorption and decreased component scrap expense.

Healthcare net sales increased 1.6% to $8.6 million during the first nine months of fiscal 2023 from $8.5 million during the first nine months of fiscal 2022 due to increases in part sales and equipment sales partially offset by a decrease in CT tube sales. Gross margin as a percentage of net sales increased to 32.9% during the first nine months of fiscal 2023 as compared to 24.7% during the first nine 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 $14.8 million during the third quarter of fiscal 2023 from $13.9 million in the third 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 third quarter of fiscal 2023 decreased to 21.0% compared to 25.2% for the third quarter of fiscal 2022.

Selling, general and administrative expenses increased to $43.7 million during the first nine months of fiscal 2023 from $40.6 million in the first nine 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 nine months of fiscal 2023 decreased to 21.4% compared to 24.9% for the first nine months of fiscal 2022.

Other Income/Expense

Other income was $0.4 million during the third quarter of fiscal 2023, compared to other expense of $0.1 million for the third quarter of fiscal 2022. Other income during the third 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 $0.1 million during the first nine months of fiscal 2023, compared to other expense of less than $0.1 million for the first nine months of fiscal 2022. Other expense during the first nine months of fiscal 2023 was mainly attributable to foreign exchange with a partial offset for investment income. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities.

Income Tax Provision

The income tax provision was $1.7 million and $0.6 million for the third quarter of fiscal 2023 and for the third quarter of fiscal 2022, respectively. The effective income tax rate during the third quarter of fiscal 2023 was a tax provision of 20.7% as compared to a tax provision of 17.4% during the third quarter of fiscal 2022. The difference in rate during the first nine months of fiscal 2023 as compared to the first nine 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.

We recorded an income tax provision of $5.3 million and $1.3 million for the first nine months of fiscal 2023 and the first nine months of fiscal 2022, respectively. The effective income tax rate during the first nine months of fiscal 2023 was a tax provision of 22.5% as compared to a tax provision of 12.1% during the first nine months of fiscal 2022. The difference in rate during the first nine months of fiscal 2023 as compared to the first nine 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 22.5% 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. The Company recorded a tax expense of less than $0.1 million due to receiving the final assessment for the German audit. The $0.1 million of uncertain tax positions recorded in prior quarters has been fully utilized as of February 25, 2023. On May 28, 2022, our worldwide liability for uncertain tax positions related to continuing operations was $0.1 million, excluding interest and penalties. 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 third quarter of fiscal 2023 was $6.3 million, or $0.44 per diluted common share and $0.40 per Class B diluted common share as compared to $2.9 million during the third quarter of fiscal 2022 or $0.21 per diluted common share and $0.19 per Class B diluted common share.

Net income during the first nine months of fiscal 2023 was $18.2 million, or $1.27 per diluted common share and $1.15 per Class B diluted common share as compared to $9.6 million during the first nine months of fiscal 2022 or $0.71 per diluted common share and $0.64 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 and cash equivalents were $24.6 million at February 25, 2023. Cash and cash equivalents by geographic area at February 25, 2023 consisted of $9.2 million in North America, $7.5 million in Europe, $1.4 million in Latin America and $6.5 million in Asia/Pacific. No funds were repatriated to the United States in the first nine months of fiscal 2023. 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.

On March 20, 2023, the Company established a senior, secured revolving credit facility agreement with a three-year term in an aggregate principal amount not to exceed $30 million, including a Swingline Loan sub-facility and a Letter of Credit sub-facility (collectively, the "Revolving Credit Facility") with PNC Bank. The Revolving Credit Facility is guaranteed by the Company's domestic subsidiaries. Proceeds of the borrowings under the Revolving Credit Facility will be used for working capital and general corporate purposes of the Company and its subsidiaries. As of the date of this report, no amounts were outstanding under the Revolving Credit Facility.

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 $11.4 million of cash during the first nine months of fiscal 2023. We had a net income of $18.2 million during the first nine months of fiscal 2023, which included non-cash stock-based compensation expense of $0.7 million associated with the issuance of stock option and restricted stock awards, inventory reserve provisions of $0.3 million and depreciation and amortization expense of $2.7 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities used $33.4 million in cash during the first nine months of fiscal 2023, net of foreign currency exchange gains and losses, included an increase in accounts receivable of $12.7 million, an increase in inventory of $21.8 million and an increase in prepaid expenses of $0.6 million. Partially offsetting the cash utilization for accounts receivable, inventory and prepaid expenses was an increase in accounts payable and accrued liabilities of $1.3 million. The increase in accounts receivable was primarily due to increased sales. The majority of the inventory increase supported 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 $1.5 million of cash during the first nine months of fiscal 2022. We had a net income of $9.6 million during the first nine months of fiscal 2022, which included non-cash stock-based compensation expense of $0.5 million associated with the issuance of stock option and restricted stock awards, $0.2 million for inventory reserve provisions and depreciation and amortization expense of $2.6 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities used $14.4 million in cash during the first nine months of fiscal 2022, net of foreign currency exchange gains and losses, included an increase in accounts receivable of $7.4 million, an increase in inventory of $12.3 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 $6.3 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 provided by investing activities of $0.2 million during the first nine months of fiscal 2023 was mainly due to the proceeds from investment maturities as well as proceeds from the sale of assets partially offset by 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 in the first nine months of fiscal 2023.

Cash used in investing activities of $2.2 million during the first nine 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 nine months 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 $0.9 million during the first nine months of fiscal 2023 primarily resulted from the $3.4 million proceeds from the issuance of stock less the $2.5 million of dividend payments to stockholders.

Cash provided by financing activities of $0.1 million during the first nine months of fiscal 2022 primarily resulted from the $2.6 million proceeds from the issuance of stock less the $2.4 million of dividend payments to stockholders.

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 February 25, 2023.

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 third 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 third quarter of fiscal 2023, filed with the SEC on April 6, 2023, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Unaudited 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: April 6, 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 February 25, 2023;

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: April 6, 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 February 25, 2023;

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: April 6, 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 February 25, 2023, 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
April 6, 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 February 25, 2023, 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
April 6, 2023