RICHARDSON ELECTRONICS LTD/DE
Form 10-Q
January 10, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 1, 2012

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

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x Yes ¨ No

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

As of January 7, 2013, there were outstanding 12,293,532 shares of Common Stock, $0.05 par value and 2,739,569 shares of Class B Common Stock, $0.05 par value, which are convertible into Common Stock of the registrant on a share for share basis.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Richardson Electronics, Ltd.

Consolidated Balance Sheets

(in thousands, except per share amounts)

	Unaudited December 1, 2012	Audited June 2, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 53,518	$ 43,893
Accounts receivable, less allowance of $1,047 and $1,058	21,706	19,727
Inventories	35,252	34,675
Prepaid expenses and other assets	1,287	806
Deferred income taxes	2,029	2,095
Income tax receivable	6,381	6,572
Investments - current	86,395	105,009
Discontinued operations - assets	248	514
Total current assets	206,816	213,291
Non-current assets:		
Property, plant and equipment, net	4,438	4,375
Goodwill	2,269	1,261
Other intangibles	272	355
Non-current deferred income taxes	1,474	1,458
Investments - non-current	7,380	10,683
Total non-current assets	15,833	18,132
Total assets	$ 222,649	$ 231,423
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 13,960	$ 12,611
Accrued liabilities	8,302	8,466
Discontinued operations - liabilities	418	253
Total current liabilities	22,680	21,330
Non-current liabilities:		
Long-term income tax liabilities	6,947	7,306
Other non-current liabilities	1,385	1,213
Discontinued operations - non-current liabilities	1,380	1,361
Total non-current liabilities	9,712	9,880
Total liabilities	32,392	31,210

Commitments and contingencies		
Stockholders equity		
Common stock, $0.05 par value; issued 12,284 shares at December 1, 2012, and 13,074 shares at June 2, 2012	611	654
Class B common stock, convertible, $0.05 par value; issued 2,740 shares at December 1, 2012 and 2,920 shares at June 2, 2012	141	146
Preferred stock, $1.00 par value, no shares issued		
Additional paid-in-capital	76,914	88,217
Common stock in treasury, at cost, -0- shares at December 1, 2012, and 18 shares at June 2, 2012		(216)
Retained earnings	103,366	104,139
Accumulated other comprehensive income	9,225	7,273
Total stockholders equity	190,257	200,213
Total liabilities and stockholders equity	$ 222,649	$ 231,423

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Richardson Electronics, Ltd.

Unaudited Consolidated Statements of Comprehensive Income (Loss)

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 1, 2012	**December 3, 2011**	**December 1, 2012**	**December 3, 2011**
Net sales	$ 36,603	$ 39,138	$ 72,253	$ 80,649
Cost of sales	25,861	27,448	50,865	56,257
Gross profit	**10,742**	**11,690**	**21,388**	**24,392**
Selling, general, and administrative expenses	10,228	9,973	20,377	20,745
(Gain) loss on disposal of assets	2		(2)	(70)
Operating income	**512**	**1,717**	**1,013**	**3,717**
Other (income) expense:				
Investment/interest income	(352)	(281)	(735)	(645)
Foreign exchange (gain) loss	297	(486)	260	295
Other, net	(42)	19	(65)	(2)
Total other income	(97)	(748)	(540)	(352)
Income from continuing operations before income taxes	609	2,465	1,553	4,069
Income tax provision	28	836	238	1,411
Income from continuing operations	581	1,629	1,315	2,658
Income (loss) from discontinued operations, net of tax	(203)	(799)	(290)	1,803
Net income	**378**	**830**	**$ 1,025**	**$ 4,461**
Foreign currency translation gain (loss), net of tax	1,547	(2,573)	1,947	(1,205)
Fair value adjustments on investments	4	(3)	5	(51)
Comprehensive income (loss)	**$ 1,929**	**$ (1,746)**	**$ 2,977**	**$ 3,205**
Net income per Common share Basic:				
Income from continuing operations	$ 0.04	$ 0.10	$ 0.09	$ 0.16
Income (loss) from discontinued operations	(0.01)	(0.05)	(0.02)	0.11
Total net income per Common share Basic:	**$ 0.03**	**$ 0.05**	**$ 0.07**	**$ 0.27**
Net income per Class B common share Basic:				
Income from continuing operations	$ 0.03	$ 0.09	$ 0.08	$ 0.14
Income (loss) from discontinued operations	(0.01)	(0.04)	(0.02)	0.10
Total net income per Class B common share Basic:	**$ 0.02**	**$ 0.05**	**$ 0.06**	**$ 0.24**
Net income per Common share Diluted:				
Income from continuing operations	$ 0.04	$ 0.09	$ 0.08	$ 0.15

Income (loss) from discontinued operations	(0.01)	(0.05)	(0.02)	0.10
Total net income per Common share Diluted:	**$ 0.03**	**$ 0.04**	**$ 0.06**	**$ 0.25**
Net income per Class B common share Diluted:				
Income from continuing operations	$ 0.03	$ 0.09	$ 0.08	$ 0.14
Income (loss) from discontinued operations	(0.01)	(0.04)	(0.02)	0.10
Total net income per Class B common share Diluted:	**$ 0.02**	**$ 0.05**	**$ 0.06**	**$ 0.24**
Weighted average number of shares:				
Common shares Basic	12,437	14,069	12,604	14,206
Class B common shares Basic	2,812	2,940	2,863	2,946
Common shares Diluted	15,345	17,161	15,567	17,319
Class B common shares Diluted	2,812	2,940	2,863	2,946
Dividends per common share	$ 0.060	$ 0.050	$ 0.120	$ 0.100
Dividends per Class B common share	$ 0.054	$ 0.045	$ 0.108	$ 0.090

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Richardson Electronics, Ltd.

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended		Six Months Ended	
	December 1, 2012	**December 3, 2011**	**December 1, 2012**	**December 3, 2011**
Operating activities:				
Net income	$ 378	$ 830	$ 1,025	$ 4,461
Adjustments to reconcile net income to cash provided by (used in) operating activities:				
Depreciation and amortization	266	280	565	564
(Gain) loss on sale of investments	(1)	11	(21)	1
(Gain) loss on disposal of assets	2		(2)	
Stock compensation expense	208	107	332	262
Change in assets and liabilities, net of effects of acquired businesses:				
Deferred income taxes	(7)	(3,514)	(8)	1,815
Accounts receivable	(758)	161	(1,404)	(64)
Income tax receivable	36	2,686	191	(5,584)
Inventories	2,265	(1,978)	1,715	(5,592)
Prepaid expenses and other assets	196	5,631	(426)	8,426
Accounts payable	2,664	(503)	1,234	(3,084)
Accrued liabilities	806	(9,230)	(200)	(42,866)
Long-term income tax liabilities	4	4,396	(317)	(7,015)
Other	148	1,744	190	1,678
Net cash provided by (used in) operating activities	6,207	621	2,874	(46,998)
Investing activities:				
Cash consideration paid for acquired businesses	(2,557)	(2,297)	(2,557)	(2,297)
Capital expenditures	(478)		(557)	(74)
Proceeds from sale of assets			4	16
Proceeds from maturity of investments	39,763	64,849	97,510	202,382
Purchases of investments	(23,838)	(68,878)	(75,562)	(285,162)
Proceeds from sales of available-for-sale securities	83	58	137	121
Purchases of available-for-sale securities	(83)	(58)	(137)	(121)
Other		3		51
Net cash provided by (used in) investing activities	12,890	(6,323)	18,838	(85,084)
Financing activities:				
Repurchase of common stock	(5,998)	(4,197)	(11,550)	(11,888)
Proceeds from issuance of common stock	72	275	83	362
Cash dividends paid	(1,799)	(832)	(1,799)	(1,678)
Other		(4)		3
Net cash used in financing activities	(7,725)	(4,758)	(13,266)	(13,201)
Effect of exchange rate changes on cash and cash equivalents	908	(1,594)	1,179	(510)
Increase/ (decrease) in cash and cash equivalents	12,280	(12,054)	9,625	(145,793)
Cash and cash equivalents at beginning of period	41,238	37,236	43,893	170,975

Cash and cash equivalents at end of period	$ 53,518	$ 25,182	$ 53,518	$ 25,182

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Richardson Electronics, Ltd.

Unaudited Consolidated Statement of Stockholders Equity

(in thousands)

	Common	Class B Common	Par Value	Additional Paid In Capital	Common Stock in Treasury	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance June 2, 2012:	13,074	2,920	$ 800	$ 88,217	$ (216)	$ 104,139	$ 7,273	$ 200,213
Net income						1,025		1,025
Foreign currency translation							1,947	1,947
Fair value adjustments on investments							5	5
Share-based compensation:								
Stock options				332				332
Common stock:								
Options exercised	13		1	81				82
Cancelled shares		(105)						
Repurchase of common stock					(11,549)			(11,549)
Treasury stock	(908)	(75)	(49)	(11,717)	11,766			
Other	105			1	(1)	1		1
Dividends paid								
Common ($0.12 per share)						(1,495)		(1,495)
Class B ($0.108 per share)						(304)		(304)
Balance December 1, 2012:	12,284	2,740	$ 752	$ 76,914	$	$ 103,366	$ 9,225	$ 190,257

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RICHARDSON ELECTRONICS, LTD.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. (we , us , the Company , and our) is incorporated in the state of Delaware. We are a leading global provider of engineered solutions, power grid and microwave tubes and related components, and customized display solutions, serving customers in the alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. Our strategy is to provide specialized technical expertise and engineered solutions based on our core engineering and manufacturing capabilities. We provide solutions and add value through design-in support, systems integration, prototype design and manufacturing, testing, logistics, and aftermarket technical service and repair.

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.

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for $238.8 million, which included an estimated pre-closing working capital adjustment of approximately $27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of $4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow $3.9 million to settle the agreed upon working capital adjustment.

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately $2.3 million, including a working capital adjustment of $0.2 million related to payables of approximately $0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. This acquisition positions us to provide cost-effective service of microwave and power grid tube equipment for communications, industrial, military, and medical users around the world.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (D and C) for approximately $2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the commercial, broadcast, medical, industrial, scientific, and military markets. This acquisition provides us with access to additional product lines, vendors, and customers.

We have two operating segments, which we define as follows:

Electron Device Group (EDG) provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO_2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

Canvys provides global customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and medical original equipment manufacturer (OEM) markets.

We currently have operations in the following major geographic regions:

North America;

Asia/Pacific;

Europe; and

Latin America.

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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 first six months of fiscal 2013 and 2012 contained 26 and 27 weeks, respectively.

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. The results of our operations for the three and six months ended December 1, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 1, 2013.

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 June 2, 2012, that we filed on July 27, 2012.

3. UPDATES TO CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Inventories: Our worldwide inventories are stated at the lower of cost or market, generally using a weighted-average cost method. Our inventories included approximately $32.7 million of finished goods and $2.6 million of raw materials and work-in-progress as of December 1, 2012, as compared to approximately $31.8 million of finished goods and $2.9 million of raw materials and work-in-progress as of June 2, 2012.

At this time, we do not anticipate any material risks or uncertainties related to possible future inventory write-downs.

Revenue Recognition: Our product sales are recognized as revenue upon shipment, when title passes to the customer, when delivery has occurred or services have been rendered, and when collectability is reasonably assured. We also record estimated discounts and returns based on our historical experience. Our products are often manufactured to meet the specific design needs of our customers applications. Our engineers work closely with customers to ensure that our products will meet their needs. Our customers are under no obligation to compensate us for designing the products we sell.

In the limited cases where remaining obligations exist after delivery of the product, the obligation relative to the unit of accounting is inconsequential or perfunctory. This conclusion was reached based on the following facts: the timing of any remaining obligation is agreed upon with the customer, which in most cases, is performed immediately after the delivery of the product; the cost and time involved to complete the remaining obligation is minimal, and the costs and time do not vary significantly; we have a demonstrated history of completing the remaining obligations timely; and finally, failure to complete the remaining obligation does not enable the customer to receive a full or partial refund of the product or service.

Discontinued Operations: In accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements-Discontinued Operations* (ASC 205-20), we reported the financial results of RFPD as a discontinued operation. Refer to Note 4 Discontinued Operations of our notes to our unaudited consolidated financial statements for additional discussion on the sale of RFPD.

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.

Goodwill and Other Intangible Assets: Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicate an impairment may have occurred, such as a significant adverse change in the business climate, loss of key personnel or a decision to sell or dispose of a reporting unit. As of December 1, 2012, our goodwill balance was $2.3 million and represents the premium we paid for Powerlink of $1.4 million during the second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of $0.9 million during our second quarter of fiscal 2013.

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During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the last day of our third quarter as the measurement date. In accordance with ASC 350 *Intangibles Goodwill and Other* (ASC 350), if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period identified.

During the fourth quarter of fiscal 2012, we adopted Accounting Standards Update (ASU) 2011-08 which allows a company the option to perform a qualitative evaluation about the likelihood of goodwill impairment to determine whether it must then calculate the fair value of an operating segment. We applied this qualitative approach to our EDG operating segment and concluded that indications of impairment were not present as of June 2, 2012. The qualitative factors considered included macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and other relevant entity or reporting unit specific events.

Intangible assets are initially recorded at their fair market values determined on quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized on a straight-line basis over their useful lives.

Our intangible assets represent the fair value that we determined for customer relationships acquired in connection with the acquisition of Powerlink during the second quarter of our fiscal year 2012. The fair value was based upon discounted cash flows that the customer relationships are expected to generate over the next twenty years.

4. DISCONTINUED OPERATIONS

Arrow Transaction

On March 1, 2011, we completed the sale of the assets primarily used or held for use in, and certain liabilities of, our RF, Wireless and Power Division (RFPD), as well as certain other Company assets, including our information technology assets, to Arrow Electronics, Inc. (Arrow) in exchange for $238.8 million, which included an estimated pre-closing working capital adjustment of approximately $27.0 million (the Transaction.) During the fourth quarter of fiscal 2011, we recorded a working capital adjustment of $4.2 million in our results from discontinued operations. During the second quarter of fiscal 2012, we paid Arrow $3.9 million to settle the working capital adjustment.

Financial Summary Discontinued Operations

Summary financial results for the three and six months ended December 1, 2012, and December 3, 2011, are presented in the following table (*in thousands*):

	Three Months		Six Months	
	Dec 1, 2012	**Dec 3, 2011**	**Dec 1, 2012**	**Dec 3, 2011**
Net sales	$ 278	$ 816	$ 499	$ 1,691
Gross profit (loss)	(128)	(105)	(221)	(374)
Selling, general, and administrative expenses	201	29	266	(448)
Other (income) expense	1		1	
Additonal gain on sale				(266)
Income tax provision (benefit)	(127)	665	(198)	(1,463)
Income (loss) from discontinued operations, net of tax	$ (203)	$ (799)	$ (290)	$ 1,803

Net sales and gross profit (loss) for the three and six months ended December 1, 2012, reflect our financial results relating to the Manufacturing Agreement with Arrow that we entered into in connection with the Transaction. Pursuant to the three-year agreement, we agreed to continue to manufacture certain RFPD products for Arrow. During the first quarter ended September 3, 2011, in connection with an examination by the Internal Revenue Service, we reduced our deferred tax liability by $2.1 million related to our un-repatriated foreign earnings based on a determination of the earnings and profits that would remain in certain foreign subsidiaries after the Arrow transaction.

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Assets and liabilities classified as discontinued operations on our unaudited consolidated balance sheets as of December 1, 2012, and June 2, 2012, include the following (*in thousands*):

	Dec 1, 2012	Jun 2, 2012
Inventories	$ 248	$ 503
Prepaid expenses and other assets		11
Discontinued operations Assets	**$ 248**	**$ 514**
Accrued liabilities current (1)	$ 418	$ 253
Long-term income tax liabilities (2)	1,380	1,361
Discontinued operations Liabilities	**$ 1,798**	**$ 1,614**

(1) *Included in accrued liabilities as of December 1, 2012, is a payable to Arrow for transition services of $ 1.8 million, offset by a receivable due to us from Arrow for transition services of $1.4 million.*

(2) *Included in long-term income tax liabilites as of December 1, 2012, is the reserve for uncertain tax positions.*

In accordance with ASC 230, *Statement of Cash Flows,* entities are permitted but not required to separately disclose, either in the statement of cash flows or footnotes to the financial statements, cash flows pertaining to discontinued operations. Entities that do not present separate operating cash flows information related to discontinued operations must do so consistently for all periods presented, which may include periods long after the sale or liquidation of the operation. Cash flows related to our discontinued operations are not material.

5. ACQUISITIONS

On September 5, 2011, we acquired the assets of Powerlink Specialist Electronics Support Limited (Powerlink) for approximately $2.3 million, including a working capital adjustment of $0.2 million related to payables of approximately $0.2 million that were paid by Powerlink prior to the close. Powerlink, a UK-based technical service company with locations in London and Dubai, services traveling wave tube (TWT) amplifiers and related equipment for the Satellite Communications market throughout Europe and the Middle East. This acquisition positions us to provide cost-effective service of microwave and power grid tube equipment for communications, industrial, military and medical users around the world.

The allocation of the final purchase price, recorded during the second quarter of fiscal 2012, included $0.4 million of trade receivables, $0.2 million of inventory, $0.4 million of other intangibles, and $1.4 million of goodwill. The goodwill represents the excess of purchase price over the fair market value of the identifiable net assets we acquired. Pro forma financial information is not presented due to immateriality.

On September 4, 2012, we acquired the assets of D and C Import-Export, Inc. (D and C) for approximately $2.6 million. D and C, a Florida-based distributor of power grid tubes and associated RF components, services the commercial, broadcast, medical, industrial, scientific, and military markets. This acquisition provides us with access to additional product lines, vendors, and customers.

The allocation of the final purchase price, recorded during the second quarter of fiscal 2013, included $0.2 million of trade receivables, $1.5 million of inventory, and $0.9 million of goodwill. The purchase price is preliminary and subject to change based on the completion of a valuation of the respective assets and liabilities. Pro forma financial information is not presented due to immateriality.

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6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is initially recorded based on the premium paid for acquisitions and is subsequently tested for impairment. We test goodwill for impairment annually and whenever events or circumstances indicates an impairment may be occurred, such as a significant adverse change in the business climate, loss of key personnel, or a decision to sell or dispose of a reporting unit. As of December 1, 2012, our goodwill balance was $2.3 million and represents the premium we paid for Powerlink of $1.4 million during our second quarter of fiscal 2012, adjusted for foreign currency translation, and the premium we paid for D and C of $0.9 million during our second quarter of fiscal 2013.

During the fourth quarter of each fiscal year, our goodwill balances are reviewed for impairment using the last day of our third quarter as the measurement date. In accordance with ASC 350, if indicators of impairment are deemed to be present, we would perform an interim impairment test and any resulting impairment loss would be charged to expense in the period identified.

Changes in the carrying value of goodwill are as follows *(in thousands)*:

	Powerlink	D and C	TOTAL
Balance at June 2, 2012	**$ 1,261**	**$**	**$ 1,261**
Premium Paid for D and C Acquisition		911	911
Foreign currency translation	97		97
Balance at December 1, 2012	**$ 1,358**	**$ 911**	**$ 2,269**

Intangible assets are initially recorded at their fair market values determined on quoted market prices in active markets, if available, or recognized valuation models. Intangible assets that have finite useful lives are amortized on a straight-line basis over their useful lives.

Our intangible assets represent the fair value for customer relationships acquired in connection with the acquisition of Powerlink during the second quarter of our fiscal year 2012.

Intangible assets subject to amortization as well as amortization expense are as follows *(in thousands)*:

	Intangible Assets Subject to Amortization as of	
	Dec 1, 2012	**June 2, 2012**
Gross Amounts:		
Customer Relationship	$ 335	$ 363
Foreign currency translation	(4)	
Total Gross Amounts	$ 331	$ 363
Accumulated Amortization:		
Customer Relationship	$ 59	$ 8
Total Accumulated Amortization	$ 59	$ 8

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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 fiscal 2013	$ 21
2014	$ 36
2015	$ 31
2016	$ 27
2017	$ 17
Thereafter	$ 140

The weighted average number of years of amortization expense remaining is 13.97.

7. INVESTMENTS

As of December 1, 2012, we had approximately $93.4 million invested in time deposits and certificate of deposits (CD). Of this, $86.4 million mature in less than twelve months and $7.0 million mature in greater than twelve months. The fair value of these investments is equal to the face value of each time deposit and CD.

We also have investments in equity securities, all of which are classified as available-for-sale and are carried at their fair value based on quoted market prices. Our investments, which are included in non-current assets, had a carrying amount of $0.4 million as of December 1, 2012, and as of June 2, 2012. Proceeds from the sale of securities were $0.1 million during the second quarter and first six months of fiscal 2013 and during the first six months of fiscal 2012, and less than $0.1 million during the second quarter of fiscal 2012. We reinvested proceeds from the sale of securities, and the cost of the equity securities sold was based on a specific identification method. Gross realized gains and losses on those sales were less than $0.1 million during the second quarter and first six months of fiscal 2013 and fiscal 2012. Net unrealized holding losses of less than $0.1 million during the second quarter and first six months of fiscal 2013 and fiscal 2012, have been included in accumulated other comprehensive income.

8. WARRANTIES

We offer warranties for the limited number of specific products we manufacture. We also provide extended warranties for some products we sell that lengthen the period of coverage specified in the manufacturer s original warranty. Our warranty terms generally range from one to three years.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience, and other available evidence. Warranty reserves were approximately $0.2 million as of December 1, 2012, and $0.1 million as of June 2, 2012.

9. LEASE OBLIGATIONS, OTHER COMMITMENTS, AND CONTINGENCIES

We lease certain warehouse and office facilities and office equipment under non-cancelable operating leases. Rent expense from continuing operations during the first six months of fiscal 2013 was $0.7 million. Under the terms of the Transaction, Arrow assumed many of our facility leases and we are sub-leasing space from Arrow. Our future minimum lease commitments, including common area maintenance charges and property taxes during the remainder of fiscal 2013 and the next four years have been adjusted to reflect the Transaction as follows *(in thousands)* :

Fiscal Year	Payments
Remaining Fiscal 2013	$ 575
2014	$ 717

2015	$	661
2016	$	396
2017	$	22
Thereafter	$	
Total	**$**	**2,371**

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10. INCOME TAXES

The effective income tax rate from continuing operations during the first six months of fiscal 2013 was 15.3% as compared to 34.7% during the first six months of fiscal 2012. The decrease in rate during the first six months of fiscal 2013, as compared to fiscal 2012, was due to the decrease in available cash in foreign jurisdictions to distribute unremitted foreign earnings with respect to ASC 740-30, *Income Taxes Other Considerations or Special Areas.* The effective rate as compared to the federal statutory rate of 34.0% resulted from our geographical distribution of taxable income or losses, apportionment of income to various states, in addition to our position with respect to ASC 740-30, *Income Taxes Other Considerations or Special Areas*.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are no longer subject to either U.S. federal, state or local, or non-U.S. tax examinations by tax authorities for years prior to fiscal 2004. Currently, we are under federal audit in the U.S. for fiscal year 2011. Based on the recent commencement of the audit, no tax matters have arisen that would result in material adjustments. Our primary foreign tax jurisdictions are Germany and the Netherlands. We have tax years open in Germany and the Netherlands beginning in fiscal 2007.

As of December 1, 2012, $46.7 million of cumulative positive earnings of some of our foreign subsidiaries are still considered permanently reinvested pursuant to ASC 740-30, *Income Taxes-Other Considerations or Special Areas*. It is not practical to determine what, if any, tax liability might exist if such earnings were to be repatriated.

As of December 1, 2012, our worldwide liability for uncertain tax positions related to continuing operations, excluding interest and penalties, was $0.4 million as compared to $0.5 million as of June 2, 2012. We record penalties and interest relating to uncertain tax positions in the income tax expense line item within the unaudited consolidated statements of income and comprehensive income.

It is reasonably possible that there will be a change in the unrecognized tax benefits related to continuing operations, excluding interest and penalties, in the range of $0 to approximately $0.03 million due to the expiration of various statutes of limitations within the next 12 months.

11. CALCULATION OF EARNINGS PER SHARE

We have authorized 30,000,000 shares of common stock, 10,000,000 shares of Class B common stock, and 5,000,000 shares of preferred stock. The Class B common stock has 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 Class A common stock cash dividends.

In accordance with ASC 260-10, *Earnings Per Share* (ASC 260), our Class B common stock is considered a participating security requiring the use of the two-class method for the computation of basic and diluted earnings per share. The two-class computation method for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Basic and diluted earnings per share were computed using the two-class method as prescribed in ASC 260. 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 Class A common stock cash dividends.

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

	Three Months Ended			
	December 1, 2012		December 3, 2011	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Income from continuing operations	$ 581	$ 581	$ 1,629	$ 1,629
Less dividends:				
Common stock	737	737	699	699
Class B common stock	148	148	133	133
Undistributed earnings (losses)	$ (304)	$ (304)	$ 797	$ 797
Common stock undistributed earnings (losses)	$ (253)	$ (253)	$ 671	$ 672
Class B common stock undistributed earnings (losses)	(51)	(51)	126	125
Total undistributed earnings (losses)	$ (304)	$ (304)	$ 797	$ 797
Income (loss) from discontinued operations	$ (203)	$ (203)	$ (799)	$ (799)
Less dividends:				
Common stock	737	737	699	699
Class B common stock	148	148	133	133
Undistributed earnings (losses)	$ (1,088)	$ (1,088)	$ (1,631)	$ (1,631)
Common stock undistributed earnings (losses)	$ (904)	$ (905)	$ (1,373)	$ (1,375)
Class B common stock undistributed earnings (losses)	(184)	(183)	(258)	(256)
Total undistributed earnings (losses)	$ (1,088)	$ (1,088)	$ (1,631)	$ (1,631)
Net income	$ 378	$ 378	$ 830	$ 830
Less dividends:				
Common stock	737	737	699	699
Class B common stock	148	148	133	133
Undistributed earnings (losses)	$ (507)	$ (507)	$ (2)	$ (2)
Common stock undistributed earnings (losses)	$ (421)	$ (422)	$ (2)	$ (2)
Class B common stock undistributed earnings (losses)	(86)	(85)		
Total undistributed earnings (losses)	$ (507)	$ (507)	$ (2)	$ (2)
Denominator for basic and diluted EPS:				
Common stock weighted average shares	12,437	12,437	14,069	14,069
Class B common stock weighted average shares, and shares under if-converted method for diluted EPS	2,812	2,812	2,940	2,940
Effect of dilutive securities Dilutive stock options		96		152

Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		15,345		17,161
Income from continuing operations per share:				
Common stock	$ 0.04	$ 0.04	$ 0.10	$ 0.09
Class B common stock	$ 0.03	$ 0.03	$ 0.09	$ 0.09
Income (loss) from discontinued operations per share:				
Common stock	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.05)
Class B common stock	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.04)
Net income per share:				
Common stock	$ 0.03	$ 0.03	$ 0.05	$ 0.04
Class B common stock	$ 0.02	$ 0.02	$ 0.05	$ 0.05

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the second quarter of fiscal 2013 and fiscal 2012 were 477,064 and 183,500, respectively.

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	Six Months Ended			
	December 1, 2012		December 3, 2011	
	Basic	Diluted	Basic	Diluted
Numerator for Basic and Diluted EPS:				
Income from continuing operations	$ 1,315	$ 1,315	$ 2,658	$ 2,658
Less dividends:				
Common stock	1,495	1,495	1,413	1,413
Class B common stock	304	304	265	265
Undistributed earnings (losses)	$ (484)	$ (484)	$ 980	$ 980
Common stock undistributed earnings (losses)	$ (402)	$ (402)	$ 826	$ 827
Class B common stock undistributed earnings (losses)	(82)	(82)	154	153
Total undistributed earnings (losses)	$ (484)	$ (484)	$ 980	$ 980
Income (loss) from discontinued operations	$ (290)	$ (290)	$ 1,803	$ 1,803
Less dividends:				
Common stock	1,495	1,495	1,413	1,413
Class B common stock	304	304	265	265
Undistributed earnings (losses)	$ (2,089)	$ (2,089)	$ 125	$ 125
Common stock undistributed earnings (losses)	$ (1,734)	$ (1,737)	$ 105	$ 106
Class B common stock undistributed earnings (losses)	(355)	(352)	20	19
Total undistributed earnings (losses)	$ (2,089)	$ (2,089)	$ 125	$ 125
Net income	$ 1,025	$ 1,025	$ 4,461	$ 4,461
Less dividends:				
Common stock	1,495	1,495	1,413	1,413
Class B common stock	304	304	265	265
Undistributed earnings (losses)	$ (774)	$ (774)	$ 2,783	$ 2,783
Common stock undistributed earnings (losses)	$ (643)	$ (643)	$ 2,345	$ 2,350
Class B common stock undistributed earnings (losses)	(131)	(131)	438	433
Total undistributed earnings (losses)	$ (774)	$ (774)	$ 2,783	$ 2,783
Denominator for basic and diluted EPS:				
Common stock weighted average shares	12,604	12,604	14,206	14,206
Class B common stock weighted average shares,and shares under if-converted method for diluted EPS	2,863	2,863	2,946	2,946
Effect of dilutive securities Dilutive stock options		100		167
Denominator for diluted EPS adjusted for weighted average shares and assumed conversions		15,567		17,319
Income from continuing operations per share:				
Common stock	$ 0.09	$ 0.08	$ 0.16	$ 0.15

Class B common stock	$ 0.08	$ 0.08	$ 0.14	$ 0.14
Income (loss) from discontinued operations per share:				
Common stock	$ (0.02)	$ (0.02)	$ 0.11	$ 0.10
Class B common stock	$ (0.02)	$ (0.02)	$ 0.10	$ 0.10
Net income per share:				
Common stock	$ 0.07	$ 0.06	$ 0.27	$ 0.25
Class B common stock	$ 0.06	$ 0.06	$ 0.24	$ 0.24

Note: Common stock options that were anti-dilutive and not included in diluted earnings per common share for the first six months of fiscal 2013 and fiscal 2012 were 267,564 and 25,000, respectively.

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12. SEGMENT REPORTING

In accordance with ASC 280-10, *Segment Reporting*, we have two reportable segments: EDG and Canvys.

EDG provides engineered solutions and distributes electronic components to customers in alternative energy, aviation, broadcast, communications, industrial, marine, medical, military, scientific, and semiconductor markets. EDG focuses on various applications including broadcast transmission, CO_2 laser cutting, diagnostic imaging, dielectric and induction heating, high energy transfer, high voltage switching, plasma, power conversion, radar, and radiation oncology. EDG also offers its customers technical services for both microwave and industrial equipment.

Canvys provides global customized display solutions serving the corporate enterprise, financial, healthcare, industrial, and medical original equipment manufacturer (OEM) markets.

The CEO evaluates performance and allocates resources primarily based on the gross profit of each segment.

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

	Three Months Ended		Six Months Ended	
	December 1, 2012	December 3, 2011	December 1,	December 3,