

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

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

For the fiscal year ended May 29, 2021

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



(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes No

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, smaller reporting company, or an emerging growth company. See 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 | <input type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-Accelerated Filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of November 28, 2020 was approximately \$49.7 million.

As of July 26, 2021, there were outstanding 11,232,060 shares of Common Stock, \$0.05 par value and 2,096,919 shares of Class B Common Stock, \$0.05 par value, which are convertible into Common Stock of the registrant on a one-for-one basis.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders scheduled to be held October 5, 2021, which will be filed pursuant to Regulation 14A, are incorporated by reference in Part III of this report. Except as specifically incorporated herein by reference, the abovementioned Proxy Statement is not deemed filed as part of this report.

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Forward Looking Statements

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 the risk factors set forth in Item 1A of this Form 10-K. 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.

PART I

ITEM 1. Business

General

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value flat panel detector solutions, replacement parts, tubes and service training for diagnostic imaging equipment; and customized display solutions. 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 fiscal year 2021 began on May 31, 2020 and ended on May 29, 2021, our fiscal year 2020 began on June 2, 2019 and ended on May 30, 2020 and our fiscal year 2019 began on June 3, 2018 and ended on June 1, 2019. Unless otherwise noted, all references to a particular year in this document shall mean our fiscal year.

Company Response to COVID-19

In March 2020, the World Health Organization classified the outbreak of COVID-19 as a pandemic. Thereafter, most U.S. states imposed “shelter in place” directives on their populations to stem the spread of COVID-19 and similar restrictive measures were taken by governments across the world.

The shelter in place directives generally required the closure of businesses that did not provide essential functions. The Company was considered a critical supplier of products to healthcare and critical infrastructure businesses. Further, several of our largest customers mandated that we continue to supply parts so as not to disrupt the supply chain and their ability to serve critical industries. As such, the Company qualified as an “Essential Business” and the Company continued our manufacturing and distribution operations throughout 2021. Our top priority was ensuring the health and safety of our employees and, accordingly, we undertook measures such as limiting the number of people in any one of our facilities by requiring only employees who could not perform their work remotely to physically work in a Company US-based facility. The Company advised all other employees that could perform their job functions remotely to do so. As such, the Company’s operations remained operational.

The impact of the COVID-19 outbreak and its effects continue to evolve. As such, the full magnitude that the pandemic, and the steps taken to prevent and/or mitigate its spread, will have on the Company’s financial condition, liquidity and future results of operations is 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 worldwide containment and vaccination efforts and the impact of these and other factors on our employees, customers and suppliers. Our ability to meet customer demands for products may be impaired or, similarly, our customers may experience adverse business consequences due to 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 was a decline in PMT sales during the first three months of fiscal 2021, a decline in Healthcare sales during the first six months of fiscal 2021 and a decline in Canvys sales during the first nine months of fiscal 2021. The majority of these declines

in sales were related to the COVID-19 global pandemic. While we had some COVID-19 related component delays impacting new product development schedules, we did not experience a major interruption in our 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 curb its spread, the Company is not presently able to fully estimate the effects of COVID-19 on its results of operations, financial condition or liquidity for fiscal year 2022.

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 May 29, 2021, the Company deferred \$0.9 million of 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.

Geography

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

Selected financial data attributable to each segment and geographic region for fiscal 2021, fiscal 2020 and fiscal 2019 is set forth in Note 9, *Segment and Geographic Information*, of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

We have three operating and reportable segments, which we define as follows:

Power and Microwave Technologies Group

Power and Microwave Technologies Group (“PMT”) 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, alternative energy, 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.

PMT represents leading manufacturers of electron tubes and RF, Microwave and power components used in semiconductor manufacturing equipment, RF and wireless and industrial power applications. Among the suppliers PMT supports are Amperex, CDE, CPI, Draloric, Eimac, General Electric, Hitachi, Jennings, L3, MACOM, National, NJRC, Ohmite, Qorvo, Thales, Toshiba and Vishay.

PMT’s inventory levels reflect our commitment to maintain an inventory of a broad range of products for customers who are buying products for replacement of components used in critical equipment and designing in new technologies. PMT also sells a number of products representing trailing edge technology. While the market for these trailing edge technology products is declining, PMT is increasing its market share. PMT often buys products it knows it can sell ahead of any supplier price increases and extended lead times. As manufacturers for these products exit the business, PMT has the option to purchase a substantial portion of their remaining inventory.

PMT has distribution agreements with many of its suppliers; most of these agreements provide exclusive distribution rights that often include global coverage. The agreements are typically long term, and usually contain provisions permitting termination by either party if there are significant breaches that are not cured within a reasonable period. Although some of these agreements allow PMT to return inventory periodically, others do not, in which case PMT may have obsolete inventory that they cannot return to the supplier.

PMT’s suppliers provide warranty coverage for the products and allow return of defective products, including those returned to PMT by its customers. For information regarding the warranty reserves, see Note 3, *Significant Accounting Policies and Disclosures*, of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

In addition to third party products, we sell proprietary products principally under certain trade names we own including *Amperex®*, *Cetron®* and *National®*. Our proprietary products include thyratrons and rectifiers, power tubes, ignitrons, magnetrons, phototubes, microwave generators, Ultracapacitor modules and liquid crystal display monitors. The materials used in the manufacturing process consist of glass bulbs and tubing, nickel, stainless steel and other metals, plastic and metal bases, ceramics and a wide variety of fabricated metal components. These materials are generally readily available, but some components may require long lead times for production, and some materials are subject to shortages or price fluctuations based on supply and demand.

Canvys – Visual Technology Solutions

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.

We have long-standing relationships with key component and finished goods manufacturers and several key ISO 9001 and ISO 13485 certified Asian display manufacturers that manufacture products to our specifications. We believe supplier relationships, combined with our engineering design and manufacturing capabilities and private label partnerships, allow us to maintain a well-balanced and technologically advanced offering of customer specific display solutions.

Healthcare

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 and deliver better clinical outcomes while lowering the cost of healthcare delivery.

Sales and Product Management

We have employees, as well as authorized representatives who are not our employees, selling our products primarily in regions where we do not have a direct sales presence.

We offer various credit terms to qualifying customers as well as cash in advance and credit card terms. We establish credit limits for each customer and routinely review delinquent and aging accounts.

Distribution

We maintain approximately 110,700 part numbers in our product inventory database and we estimate that more than 90% of orders received by 6:00 p.m. local time are shipped complete the same day for stock product. Customers can access our products on our web sites, www.rell.com, www.rellhealthcare.com, www.canvys.com, www.rellpower.com, www.relltubes.com and www.rellaser.com, through electronic data interchange, or by telephone. Customer orders are processed by our regional sales offices and supported primarily by one of our distribution facilities in LaFox, Illinois; Fort Mill, South Carolina; Amsterdam, Netherlands; Marlborough, Massachusetts; Donaueschingen, Germany; or Singapore, Singapore. We also have satellite warehouses in Sao Paulo, Brazil; Shanghai, China; Bangkok, Thailand; and Hook, United Kingdom. Our data processing network provides on-line, real-time interconnection of all sales offices and central distribution operations, 24 hours per day, seven days per week. Information on stock availability, pricing in local currency, cross-reference information, customers and market analyses are obtainable throughout the entire distribution network.

International Sales

During fiscal 2021, we made approximately 59% of our sales outside the U.S. We continue to pursue new international sales to further expand our geographic reach.

Major Customers

During fiscal 2021, fiscal 2020 and fiscal 2019, no one customer accounted for more than 10 percent of the Company's consolidated net sales. See Note 9, *Segment and Geographic Information*, of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information.

Human Capital Management

The future success of our company depends on our ability to attract, hire, motivate, retain and further develop top talent, including highly-skilled technical, management and sales personnel. The skills, experience and industry knowledge of our employees significantly benefit our operations and performance. Competition for such personnel is intense and the salary, benefits and other costs to employ the right personnel may impact our results and performance.

As of May 29, 2021, we employed 405 individuals, which included 373 full-time individuals and 32 part-time individuals. Of these, 250 full-time and 18 part-time were located in the United States and 123 full-time and 14 part-time were located internationally. All of our employees are non-union and we consider our relationships with our employees to be good.

The Company offers employees a competitive compensation program, designed to recognize and reward both individual and company performance, which includes a base pay, variable compensation programs, and health, wellbeing and retirement programs to meet the needs of our employees.

The health, safety and wellness of our employees is a priority that was a particular focus in 2021 in light of COVID-19, including having many of our employees work from home whenever possible while implementing additional safety measures for employees continuing critical on-site work.

Website Access to SEC Reports

We maintain an Internet website at www.rell.com. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 are accessible through our website, free of charge, as soon as reasonably practicable after these reports are filed electronically with the Securities and Exchange Commission. Interactive Data Files pursuant to Rule 405 of Regulation S-T, of these filing dates, formatted in Extensible Business Reporting Language ("XBRL") are accessible as well. To access these reports, go to our website at www.rell.com. Information relating to our corporate governance, including our Code of Conduct (including any related amendments or waivers) and information concerning our executive officers, directors and Board committees (including committee charters) is also available on our website. The foregoing information regarding our website is provided for convenience and the content of our website is not deemed to be incorporated by reference in this report filed with the Securities and Exchange Commission. Additionally, the SEC maintains an internet site through which our reports, proxy and information statements and our other SEC filings can be located; the address of that site is <http://www.sec.gov>.

ITEM 1A. Risk Factors

Investors should consider carefully the following risk factors in addition to the other information included and incorporated by reference in this Annual Report on Form 10-K that we believe are applicable to our businesses and the industries in which we operate. While we believe we have identified the key risk factors affecting our businesses, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our results of operations.

Business and Operational Risks

We may not achieve our plan for sales growth and margin targets.

We have established both margin and expense targets to grow our sales with new and existing customers. If we do not achieve our growth objectives, the complexity of our global infrastructure makes it difficult to leverage our fixed cost structure to align with the size of our operations. Factors that could have a significant effect on our ability to achieve these goals include the following:

- Failure to achieve our sales and margin growth objectives in our product lines and business units;
- Failure to identify, consummate and successfully integrate acquisitions;
- Declining gross margin reflecting competitive pricing pressures or product mix; and

- Limitations on our ability to leverage our support-function cost structure while maintaining an adequate structure to achieve our growth objectives.

In addition, the impact of the COVID-19 pandemic resulted in sales declines across our three business units at various times during fiscal 2021. While many regions are seeing a recovery from the outbreak, the situation continues to evolve and the effects of the pandemic could adversely affect the Company's revenues, earnings, liquidity and cash flows.

We have historically incurred significant charges for inventory obsolescence and may incur similar charges in the future.

We maintain significant inventories in an effort to ensure that customers have a reliable source of supply. Our products generally support industrial machinery powered by tube technology. As technology evolves and companies replace this capital equipment, the market for our products potentially declines. In addition, the market for many of our other products changes rapidly resulting from the development of new technologies, evolving industry standards, frequent new product introductions by some of our suppliers and changing end-user demand, which can contribute to the decline in value or obsolescence of our inventory. We do not have many long-term supply contracts with our customers. If we fail to anticipate the changing needs of our customers or we do not accurately forecast customer demand, our customers may not place orders with us, and we may accumulate significant inventories of products that we may be unable to sell or return to our vendors. This may result in a decline in the value of our inventory.

We face competitive pressures that could have a material adverse effect on our business.

Our overall competitive position depends on a number of factors including price, engineering capability, vendor representation, product diversity, lead times and the level of customer service. There are very few vacuum tube competitors in the markets we serve. There are also a limited number of Chinese manufacturers whose ability to produce vacuum tubes has progressed over the past several years. The most significant competitive risk comes from technical obsolescence. Canvys faces many competitors in the markets we serve. Increased competition may result in price reductions, reduced margins or a loss of market share, any of which could materially and adversely affect our business, operating results and financial condition. As we expand our business and pursue our growth initiatives, we may encounter increased competition from current and/or new competitors. Our failure to maintain and enhance our competitive position could have a material adverse effect on our business.

We are dependent on a limited number of vendors to supply us with essential products.

The products we supply are currently produced by a relatively small number of manufacturers. One of our suppliers represented 15% of our total cost of sales. Our success depends, in large part, on maintaining current vendor relationships and developing new relationships. To the extent that our significant suppliers are unwilling or unable to continue to do business with us, extend lead times, limit supplies due to capacity constraints or other factors, there could be a material adverse effect on our business. We experienced some COVID-19 related component delays impacting new product development schedules. Further disruptions to the supply chain because of the COVID-19 pandemic and its impact, or other world or domestic events could materially adversely impact our operations and business.

We rely heavily on information technology systems that, if not properly functioning, could materially adversely affect our business.

We rely on our information technology systems to process, analyze and manage data to facilitate the purchase, manufacture, and distribution of our products, as well as to receive, process, bill and ship orders on a timely basis. A significant disruption or failure in the design, operation, security or support of our information technology systems could significantly disrupt our business.

Our information technology systems may be subject to cyber attacks, security breaches or computer hacking. Experienced computer programmers and hackers may be able to penetrate our security controls and misappropriate or compromise sensitive personal, proprietary or confidential information, create system disruptions or cause shutdowns. They also may be able to develop and deploy viruses, worms and other malicious software programs that attack our systems or otherwise exploit any security vulnerabilities. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, employee information or our information technology systems. Our systems and the data stored on those systems may also be vulnerable to security incidents or security attacks, acts of vandalism or theft, coordinated attacks by activist entities, misplaced or lost data, human errors or other similar events that could negatively affect our systems and its data, as well as the data of our business partners. Further, third parties, such as hosted solution providers, that provide services to us, could also be a source of security risk in the event of a failure of their own security systems and infrastructure.

The costs to mitigate or address security threats and vulnerabilities before or after a cyber incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or

potential suppliers or customers. In addition, breaches of our security measures and the unauthorized dissemination of sensitive personal, proprietary or confidential information about us, our business partners or other third parties could expose us to significant potential liability and reputational harm. As threats related to cyber attacks develop and grow, we may also find it necessary to make further investments to protect our data and infrastructure, which may impact our profitability. As a global enterprise, we could also be negatively impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy, data localization and data protection.

Our products may be found to be defective or our services performed may result in equipment or product damage and, as a result, warranty and/or product liability claims may be asserted against us.

We sell many of our components at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. Since a defect or failure in a product could give rise to failures in the equipment that incorporates them, we may face claims for damages that are disproportionate to the revenues and profits we receive from the components involved in the claims. While we typically have provisions in our agreements with our suppliers that hold the supplier accountable for defective products, and we and our suppliers generally exclude consequential damages in our standard terms and conditions, our ability to avoid such liabilities may be limited as a result of various factors, including the inability to exclude such damages due to the laws of some of the countries where we do business. Our business could be adversely affected as a result of a significant quality or performance issues in the components sold by us if we are required to pay for the damages. Although we have product liability insurance, such insurance is limited in coverage and amount.

Substantial defaults by our customers on our accounts receivable or the loss of significant customers could have a significant negative impact on our business.

We extend credit to our customers. The failure of a significant customer or a significant group of customers to timely pay all amounts due could have a material adverse effect on our financial condition and results of operations. The extension of credit involves considerable judgment and is based on management's evaluation of factors that include such things as a customer's financial condition, payment history and the availability of collateral to secure customers' receivables.

Failure to successfully implement our growth initiatives, or failure to realize the benefits expected from these initiatives if implemented, may create ongoing operating losses or otherwise adversely affect our business, operating results and financial condition.

Our growth strategy focuses on expanding our healthcare and our power conversion businesses. In 2015, we acquired certain assets, including inventory, receivables, fixed assets and certain other assets, of International Medical Equipment and Services, Inc. ("IMES") and launched Power and Microwave Technologies Group ("PMT"), which combines our core engineered solutions, power grid and microwave tube business with new RF and power technologies. We may be unable to implement our growth initiatives or reach profitability in the near future or at all, due to many factors, including factors outside of our control. If our investments in these growth initiatives do not yield anticipated returns for any reason, our business, operating results and financial condition may be adversely affected.

We may not be successful in identifying, consummating and integrating future acquisitions.

As part of our growth strategy, our intent is to acquire additional businesses or assets. We may not be able to identify attractive acquisition candidates or complete the acquisition of identified candidates at favorable prices and upon advantageous terms. Also, acquisitions are accompanied by risks, such as potential exposure to unknown liabilities and the possible loss of key employees and customers of the acquired business. In addition, we may not obtain the expected benefits or cost savings from acquisitions. Acquisitions are subject to risks associated with financing the acquisition, and integrating the operations, personnel and systems of the acquired businesses. If any of these risks materialize, they may result in disruptions to our business and the diversion of management time and attention, which could increase the costs of operating our existing or acquired businesses or negate the expected benefits of the acquisitions.

Economic weakness and uncertainty could adversely affect our revenues and gross margins.

Our revenues and gross profit margins depend significantly on global economic conditions, the demand for our products and services and the financial condition of our customers. Economic weakness and uncertainty have in the past, and may in the future, result in decreased revenues and gross profit margins. Economic uncertainty also makes it more difficult for us to forecast overall supply and demand with a great deal of confidence. Financial turmoil affecting the banking system and financial markets could result in tighter credit markets and lower levels of liquidity in some financial markets. The effects of a tightened credit environment could include the insolvency of key vendors or their inability to obtain credit to finance development and/or manufacture products resulting in product delays as well as the inability of customers to obtain credit to finance operations and/or customer insolvencies. Spending

and the timing thereof by our customers may have a significant impact on our results and, where such spending is delayed or cancelled, it could have a material negative impact on our operating results. Current global economic conditions remain uncertain and challenging. Weakness in the markets in which we operate could negatively impact our revenue and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

Our operating results produced net income for fiscal 2021, but operating results for fiscal 2020 and fiscal 2019 reflected a net loss. There can be no assurance that we will continue recovery in the near future; nor is there any assurance that such worldwide economic volatility in connection with the COVID-19 pandemic, its repercussions, actions taken in response to the pandemic and attempts at recovery will not continue.

Our business and results of operations are subject to a broad range of uncertainties arising out of world and domestic events.

Our business and results of operations are subject to uncertainties arising from world and domestic events. These uncertainties may include a global economic slowdown, pandemics and other public health issues (including the COVID-19 pandemic), natural disasters, military action, terrorist activities, political and social turmoil, civil unrest and other crises. Such conditions have impacted and may continue to impact customer demand as well as our suppliers' ability to supply us with necessary materials and, ultimately, may have an impact on our business, financial condition, results and stock price.

The COVID-19 outbreak was declared a pandemic in March 2020 based on the rapid increase in global exposure. In response, the governments of many countries, states, cities and other geographic regions (including areas in which we have operations) took preventative or protective actions, such as imposing restrictions on business operations and requiring individuals to stay at home. As the impact of the COVID-19 outbreak and responses to the pandemic continue to evolve and be felt, our ability to meet customer demand for products may be impaired or, similarly, our customers may experience adverse business consequences due to COVID-19. During fiscal 2021, the Company experienced decreases in demand for certain products as a result of the impact of COVID-19 on certain customers and in certain regions. A significant reduced demand for products or impaired ability to meet customer demand (including disruptions at our transportation service providers or vendors) could cause a material adverse effect on our business, operations and financial performance.

COVID-19 continues to spread in various regions of the world. The extent to which our business will be impacted will depend on future developments which are highly uncertain and cannot be predicted. These include but not limited to the continued duration and spread of the pandemic, its severity, the effectiveness of actions to vaccinate populations, contain the virus or treat its impact and how quickly and to what extent normal economic and operating conditions resume. The potential effects of COVID-19, the responses to the pandemic and the various recovery initiatives may also impact many of our risk factors described herein; however, as this is an unprecedented and changing situation, the potential impacts to such risk factors remain uncertain. Even after the COVID-19 pandemic subsides, we may experience adverse impacts to our business and financial results due to any economic recession or depression that has occurred, and due to any major public health crises that may occur in the future. This is a very dynamic situation and we cannot at this time reasonably estimate the scope of its impact on our employees, operations, suppliers or customers, or the full extent to which COVID-19 could continue to affect the global economy and our results.

Major disruptions to our logistics capability or to the operations of our key vendors or customers could have a material adverse impact on our operations.

We operate our global logistics services through specialized and centralized distribution centers. We depend on third party transportation service providers for the delivery of products to our customers. A major interruption or disruption in service at any of our distribution centers, or a disruption at the operations of any of our significant vendors or customers, for any reason, including reasons beyond our control (such as natural disasters, pandemics (such as COVID-19), work stoppages, power loss, cyber attacks, incidents of terrorism or other significant disruptions of services from our third party providers) could cause cancellations or delays in a significant number of shipments to customers and, as a result, could have a severe impact on our business, operations and financial performance.

Risks Related to International Operations

A significant portion of our cash, cash equivalents and investments is held by our foreign subsidiaries and could affect future liquidity needs.

As of May 29, 2021, \$17.8 million, or approximately 41% of our cash and cash equivalents was held by our foreign subsidiaries. While we intend to use some of the cash held outside the United States to fund our international operations and growth, when we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through other internal or external sources, our liquidity requirements could necessitate transfers of existing cash balances between our subsidiaries or to the United States. Some of these subsidiaries are located in jurisdictions that require foreign government approval before a cash repatriation can occur.

International operations represent a significant percentage of our business and present a variety of risks that could impact our results.

Because we source and sell our products worldwide, our business is subject to risks associated with doing business internationally. These risks include the costs and difficulties of managing foreign entities, limitations on the repatriation and investment of funds, cultural differences that affect customer preferences and business practices, unstable political or economic conditions, trade protection measures and import or export licensing requirements and changes in tax laws.

We also face exposure to fluctuations in foreign currency exchange rates because we conduct business outside of the United States. Price increases caused by currency exchange rate fluctuations may make our products less competitive or may have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U.S. dollar. Accordingly, when the U.S. dollar strengthens in relation to the base currencies of the countries in which we sell our products, our U.S. dollar reported net revenue and income would decrease. We currently do not engage in any currency hedging transactions. We cannot predict whether foreign currency exchange risks inherent in doing business in foreign countries will have a material adverse effect on our operations and financial results in the future. Further, global economic conditions may cause volatility and disruptions in the capital and credit markets. Negative or uncertain financial and macroeconomic conditions may have a significant adverse impact on our sales, profitability and results of operations.

The withdrawal by the United Kingdom from the European Union could have a material adverse effect on our business, financial position, liquidity and results of operations.

We conduct a significant portion of our business in the European Union (“EU”) and the withdrawal of the United Kingdom (“U.K.”) from the EU (also referred to as “Brexit”) could have a material adverse effect on our business, financial position, liquidity and results of operations. In connection with the U.K.’s exit from the EU, the U.K. and the EU struck a bilateral trade and cooperation deal governing the future relationship between the U.K. and the EU, which took effect on May 1, 2021. However, there remains uncertainties and risks to our business related to Brexit and the new relationship between the U.K. and EU, which will continue to be developed and defined, as well as any resulting political and economic instability created by Brexit. The political and economic impact of Brexit has caused and may continue to cause significant volatility in global markets as well as greater restrictions on imports and exports between the U.K. and EU countries, a fluctuation in currency exchange rates and increased regulatory complexities. The impact of the withdrawal of the U.K. may adversely affect business activity, political stability and economic conditions in the U.K., the EU and elsewhere. Such developments and their ultimate impact, or the perception that any of these developments are likely to occur, could have a material adverse effect on economic growth or business activity in the U.K., the Eurozone or the EU, and could result in the relocation of businesses, cause business interruptions, lead to economic recession or depression, inhibit the growth of the European economy, cause greater volatility in all of the global currencies that we currently use to transact business and impact the stability of the financial markets, availability of credit, political systems or financial institutions and the financial and monetary system. Such developments could have a material adverse effect on our business, financial position, liquidity and results of operations.

Financial Risks

We may need to raise additional funds through debt or equity financings in the future to fund our domestic operations and our broader corporate initiatives, which would dilute the ownership of our existing shareholders.

If the cash generated by our domestic operations is not sufficient to fund our domestic operations and our broader corporate initiatives, such as stock repurchases, dividends, acquisitions and other strategic opportunities, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we are unable to, or choose not to, repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders’ ownership interests in us. Furthermore, lenders may not agree to extend us new, additional or continuing credit. Economic uncertainty or adverse economic conditions resulting from the impacts of and responses to the COVID-19 pandemic could result in significant or sustained disruption of global financial markets, thereby reducing our ability to access capital. In any such case, our business, operating results or financial condition could be adversely impacted.

There is a possible risk of identifiable intangible asset impairment, which could reduce the value of our assets and reduce our net income in the year in which the write-off occurs.

Our intangible assets could become impaired, which could reduce the value of our assets and reduce our net income in the year in which the write-off occurs. We ascribe value to certain intangible assets which consist of customer lists and trade names resulting from acquisitions. An impairment charge on intangible assets would be incurred in the event that the fair value of the intangible assets are less than their current carrying values. We evaluate whether events have occurred that indicate all, or a portion, of the carrying amount of intangible assets may no longer be recoverable. If this is the case, an impairment charge to earnings would be necessary.

Legal and Regulatory Risks

We may be subject to intellectual property rights claims, which are costly to defend, could require payment of damages or licensing fees, and/or could limit our ability to use certain technologies in the future.

Substantial litigation and threats of litigation regarding intellectual property rights exist in the display systems and electronics industries. From time to time, third parties, including certain companies in the business of acquiring patents with the intention of aggressively seeking licensing revenue from purported infringers, have asserted and may in the future assert patent and/or other intellectual property rights to technologies that are important to our business. In any dispute involving products that we have sold, our customers could also become the target of litigation. We are obligated in many instances to indemnify and defend our customers if the products we sell are alleged to infringe any third party's intellectual property rights. In some cases, depending on the nature of the claim, we may be able to seek indemnification from our suppliers for our self and our customers against such claims, but there is no assurance that we will be successful in obtaining such indemnification or that we are fully protected against such claims. Any infringement claim brought against us, regardless of the duration, outcome or size of damage award, could result in substantial cost, divert our management's attention, be time consuming to defend, result in significant damage awards, cause product shipment delays, or require us to enter into royalty or other licensing agreements. See Note 10, *Risks and Uncertainties*, of the notes to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further information regarding specific legal matters related to our patents.

Additionally, if an infringement claim is successful we may be required to pay damages or seek royalty or license arrangements which may not be available on commercially reasonable terms. The payment of any such damages or royalties may significantly increase our operating expenses and harm our operating results and financial condition. Also, royalty or license arrangements may not be available at all. We may have to stop selling certain products or certain technologies, which could affect our ability to compete effectively.

Potential lawsuits, with or without merit, may divert management's attention, and we may incur significant expenses in our defense. In addition, we may be required to pay damage awards or settlements, become subject to injunctions or other equitable remedies, or determine to abandon certain lines of business, that may cause a material adverse effect on our results of operations, financial position and cash flows.

We may incur substantial operational costs or be required to change our business practices to comply with data privacy and data protection laws and regulations around the world.

We are subject to many privacy and data protection laws and regulations in various jurisdictions, which continue to evolve rapidly. The EU's General Data Protection Regulation ("GDPR") includes operational requirements for companies that receive or process personal data of residents of the European Union, including more robust documentation requirements for data protection compliance programs. Specifically, the GDPR imposes numerous privacy-related requirements for companies operating in the EU, including greater control for data subjects, increased data portability for EU consumers and data breach notification requirements.

Complying with the GDPR may cause us to incur substantial operational costs or require us to change our business practices in ways that we cannot currently predict. Despite our efforts to bring our practices into compliance with the GDPR, we may not be successful. Non-compliance could result in proceedings against us by governmental entities, customers, data subjects or others. Fines of up to 20 million euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, may be imposed for violations of certain of the GDPR's requirements.

In addition, several other jurisdictions in the U.S. and around the world have enacted privacy laws or regulations similar to GDPR. For instance, California enacted the California Consumer Privacy Act (“CCPA”), effective January 1, 2020 which gives consumers many of the same rights as those available under GDPR. Several laws similar to the CCPA have been proposed in the United States at both the federal and state level. The effects of, and costs incurred in connection with complying with, the GDPR, the CCPA and other data privacy laws and regulations may be significant and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Any actual or perceived failures to comply with the GDPR, the CCPA or other data privacy laws or regulations, or related contractual or other obligations, or any perceived privacy rights violation, could lead to investigations, claims and proceedings by governmental entities and private parties, damages for contract breach, and other significant costs, penalties and other liabilities, as well as harm to our reputation and market position.

Our international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations.

We are subject to applicable export control laws and regulations of the United States and other countries. United States laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations (“ITAR”), the Export Administration Regulations (“EAR”) and the trade and trade sanctions laws and regulations administered by the Office of the United States Trade Representative and the United States Department of the Treasury’s Office of Foreign Assets Control. The import and export of our products are subject to international trade agreements, the modification or repeal of which could impact our business. The U.S. government agencies responsible for administering EAR and ITAR have significant discretion in the interpretation and enforcement of these regulations. Violations of these laws or regulations could result in significant additional sanctions including fines, more onerous compliance requirements, more extensive debarments from export privileges, loss of authorizations needed to conduct aspects of our international business and criminal penalties and may harm our ability to enter contracts with customers who have contracts with the U.S. government. A violation of the laws or the regulations enumerated above could materially adversely affect our business, financial condition and results of operations.

Ongoing changes to tariffs and trade relations may adversely affect our business.

Our international operations are subject to changing tariffs and developments in trade relations. The U.S. government has made statements and taken certain actions that have led to, and may in the future lead to, further changes to U.S. and international trade policies, including recently imposed tariffs affecting certain products exported by a number of U.S. trading partners, including China. For example, during 2018, the U.S. and China each imposed new tariffs, and announced further proposed tariffs, on various products imported from China and the U.S., respectively. Between July 2018 and September 2018, the Office of the United States Trade Representative imposed tariffs of 10% and 25% on three product lists totaling approximately \$250 billion in Chinese imports. In May 2019, there was an announcement of the United States government’s imposition of a 25% tariff on a range of products exported from China to the U.S. on or after May 10, 2019. These lists include some of our products.

Subsequently, in January 2020, the U.S. and China signed a “phase one” trade deal, accompanied by a U.S. decision to cancel a plan to increase tariffs on an additional list of Chinese products and to reduce the tariffs imposed on May 13, 2019 from 15% to 7.5% effective February 14, 2020. Currently, the majority of tariff exclusions granted have expired and many of the additional tariffs on Chinese origin goods remain, as do concerns over the stability of bilateral trade relations, particularly given the limited scope of the phase one agreement.

It is possible that further tariffs may be imposed on imports of our products, including by other countries, or that our business will be impacted by changing trade relations among countries. This may cause us to raise prices or make changes to our operations, any of which could adversely impact demand for our products, our costs, customers, suppliers and/or the United States economy or certain sectors thereof and, thus, to adversely impact our businesses and results of operations. Given the evolving nature of trade relations, the impact on our operations and results is uncertain and could be significant. We can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful. To the extent that our supply chain, costs, sales or profitability are negatively affected by the tariffs or other trade actions, our business, financial condition and results of operations may be materially adversely affected.

Ownership Risks

A single stockholder has voting control over us.

As of July 26, 2021, Edward J. Richardson, our Chairman, Chief Executive Officer and President, beneficially owned approximately 98% of the outstanding shares of our Class B common stock, representing approximately 64% of the voting power of the outstanding common stock. This share ownership permits Mr. Richardson to exert control over the outcome of stockholder votes, including votes concerning the election of directors, by-law amendments, possible mergers, corporate control contests and other significant corporate transactions.

General Risk Factors

Failure to attract and retain key skilled personnel could hurt operations.

Our success depends to a large extent upon the continued services of key management personnel, particularly Mr. Richardson. While we have employment contracts in place with several of our executive officers, we nevertheless cannot be assured that we will retain our key employees and the loss of service of any of these officers or key management personnel could have a material adverse effect on our business growth and operating results.

Our future success will require an ability to attract and retain qualified employees. Competition for such key personnel is intense and we cannot be assured that we will be successful in attracting and retaining such personnel. We cannot make assurances that key personnel will not depart in the future. Changes in the cost of providing employee benefits in order to attract and retain personnel, including changes in health care costs, could lead to increased costs in any of our operations.

If we fail to maintain an effective system of internal controls or discover material weaknesses in our internal controls over financial reporting, we may not be able to detect fraud or report our financial results accurately or timely.

An effective internal control environment is necessary for us to produce reliable financial reports and is an important part of our effort to prevent financial fraud. We are required to periodically evaluate the effectiveness of the design and operation of our internal controls over financial reporting. Based on these evaluations, we may conclude that enhancements, modifications or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of our internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including fraud, collusion, management override and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate business risks.

If we fail to maintain an effective system of internal controls, or if management or our independent registered public accounting firm discovers material weaknesses in our internal controls, we may be unable to produce reliable financial reports or prevent fraud. In addition, we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or NASDAQ. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

If we are deemed to be an investment company, we will be required to meet burdensome compliance requirements and restrictions on our activities.

We have had significant cash and investments. If we are deemed to be an “investment company” as defined under the Investment Company Act of 1940 (the “Investment Company Act”), the nature of our investments may be subject to various restrictions. We do not believe that our principal activities subject us to the Investment Company Act. If we are deemed to be subject to the Investment Company Act, compliance with required additional regulatory burdens would increase our operating expenses.

Evolving expectations around corporate responsibility practices, specifically related to environmental, social and governance (“ESG”) matters, may expose us to reputational and other risks.

Investors, stockholders, customers, suppliers and other third parties are increasingly focusing on ESG and corporate social responsibility endeavors and reporting. Certain institutional investors, investment funds, other influential investors, customers, suppliers and other third parties are also increasingly focused on ESG practices. Companies that do not adapt to or comply with the evolving investor or stakeholder expectations and standards, or which are perceived to have not responded appropriately, may suffer from reputational damage and result in the business, financial condition and/or stock price of a company being materially and

adversely affected. Further, this increased focus on ESG issues may result in new regulations and/or third party requirements that could adversely impact our business, or certain shareholders reducing or eliminating their holdings of our stock. Additionally, an allegation or perception that the Company has not taken sufficient action in these areas could negatively harm our reputation.

Our stock price may be volatile.

Our stock price has fluctuated in the past and may experience declines in the future as a result of the volatile nature of the stock market, developments in our business and/or factors outside of our control. Many factors may cause the market price for our common stock to change, including: (i) our operating results as compared to investors' expectations in any period, (ii) market perceptions concerning our future earnings prospects, (iii) adverse changes in general market conditions or economic trends and (iv) changes or events in our industry or the world, such as market reactions to the COVID-19 pandemic.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns one facility and leases 28 facilities. We own our corporate facility and largest distribution center, which is located on approximately 100 acres in LaFox, Illinois and consists of approximately 242,000 square feet of manufacturing, warehouse and office space. We maintain geographically diverse facilities because we believe this provides value to our customers and suppliers, and limits market risk and exchange rate exposure. We believe our properties are well maintained and adequate for our present needs. The extent of utilization varies from property to property and from time to time during the year.

Our facility locations, their primary use and segments served are as follows:

| Location | Leased/Owned | Use | Segment |
|-----------------------------|---------------------|--|-----------------------|
| Woodland Hills, California | Leased | Sales | PMT |
| LaFox, Illinois * | Owned | Corporate/Sales/Distribution/Manufacturing | PMT/Canvys/Healthcare |
| Marlborough, Massachusetts | Leased | Sales/Distribution/Manufacturing | Canvys |
| Fort Mill, South Carolina | Leased | Sales/Distribution/Testing/Repair | Healthcare |
| Murray, Utah | Leased | Sales/Testing/Repair | Healthcare |
| Sao Paulo, Brazil | Leased | Sales/Distribution | PMT |
| Beijing, China | Leased | Sales | PMT |
| Nanjing, China | Leased | Sales | PMT |
| Shanghai, China | Leased | Sales/Distribution | PMT |
| Shenzhen, China | Leased | Sales | PMT |
| Brive, France | Leased | Manufacturing Support/Testing | PMT |
| Paris, France | Leased | Sales | PMT |
| Donaueschingen, Germany | Leased | Sales/Distribution/Manufacturing | Canvys |
| Puchheim, Germany | Leased | Sales | PMT |
| Mumbai, India | Leased | Sales | PMT |
| Ramat Gan, Israel | Leased | Sales | PMT |
| Florence, Italy | Leased | Sales | PMT |
| Milan, Italy | Leased | Sales | PMT |
| Tokyo, Japan | Leased | Sales | PMT |
| Mexico City, Mexico | Leased | Sales | PMT |
| Amsterdam, Netherlands | Leased | Sales/Distribution/Manufacturing | PMT/Healthcare |
| Singapore, Singapore | Leased | Sales/Distribution | PMT |
| Gyeonggi-do, South Korea | Leased | Sales | PMT |
| Madrid, Spain | Leased | Sales | PMT |
| Taipei, Taiwan | Leased | Sales | PMT/Canvys |
| Bangkok, Thailand | Leased | Sales/Distribution | PMT |
| Dubai, United Arab Emirates | Leased | Sales/Distribution/Testing/Repair | PMT |
| Hook, United Kingdom | Leased | Sales/Distribution/Testing/Repair | PMT |
| Lincoln, United Kingdom | Leased | Sales | PMT/Canvys |

* LaFox, Illinois is also the location of our corporate headquarters.

ITEM 3. Legal Proceedings

On October 15, 2018, Varex Imaging Corporation (“Varex”) filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics, Ltd. (“Richardson”) in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson’s ALTA750™ product. Richardson filed an opposition to the preliminary injunction. In January 2019, the Court took evidence on the preliminary injunction issue. On September 30, 2019, the Court denied Varex’s Motion for Preliminary Injunction. On August 6, 2020, Varex amended its Complaint to add claims of trade secret misappropriation and Richardson moved to dismiss that Amended Complaint on September 9, 2020. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter, which was recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

PART II

ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Unregistered Sales of Equity Securities

None.

Share Repurchases

There were no share repurchases in fiscal 2021.

Dividends

Our quarterly dividend was \$0.06 per common share and \$0.054 per Class B common share. Annual dividend payments were approximately \$3.1 million for both fiscal 2021 and fiscal 2020. 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.

Common Stock Information

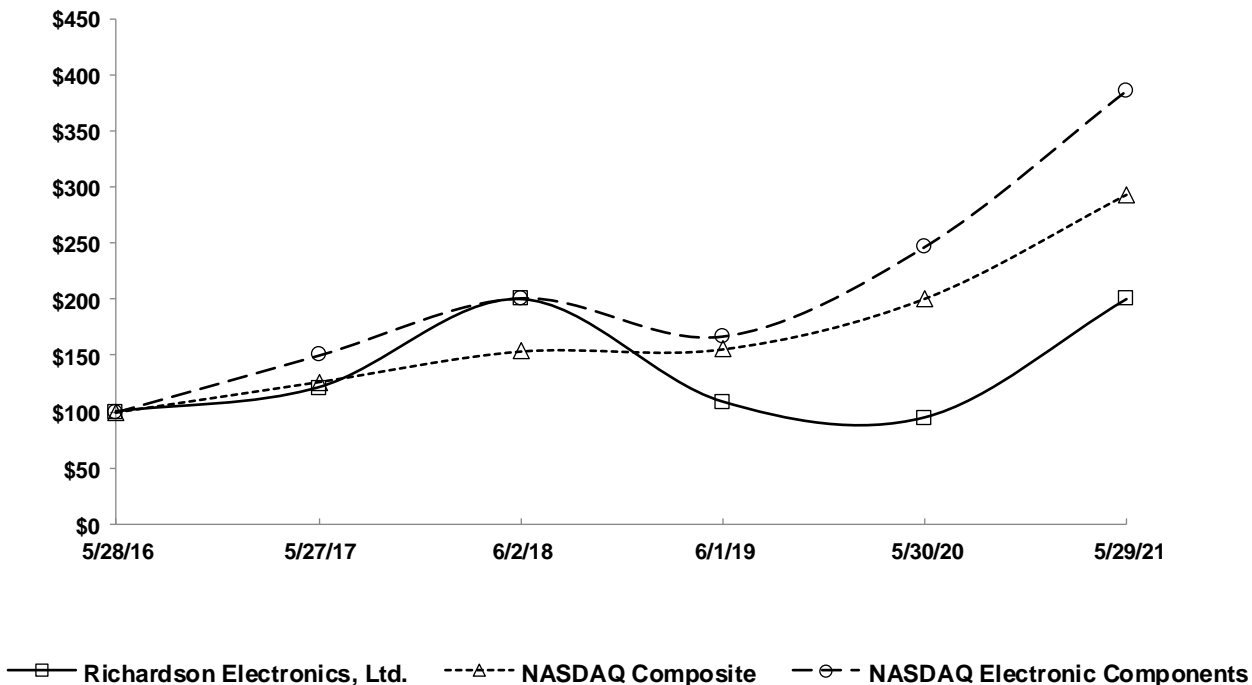
Our common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the trading symbol ("RELL"). There is no established public trading market for our Class B common stock. As of July 26, 2021, there were approximately 459 stockholders of record for the common stock and approximately 15 stockholders of record for the Class B common stock.

Performance Graph

The following graph compares the performance of our common stock for the periods indicated with the performance of the NASDAQ Composite Index and NASDAQ Electronic Components Index. The graph assumes \$100 invested on the last day of our fiscal year 2016, in our common stock, the NASDAQ Composite Index and NASDAQ Electronic Components Index. Total return indices reflect reinvestment of dividends at the closing stock prices at the date of the dividend declaration.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Richardson Electronics, Ltd., the NASDAQ Composite Index and the NASDAQ Electronic Components Index



*\$100 invested on 5/28/16 in stock or 5/31/16 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

ITEM 6. Selected Financial Data

Five-Year Financial Review

This information should be read in conjunction with our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

| | Fiscal Year Ended ⁽¹⁾ | | | | |
|--|--|------------------|------------------|-----------------|------------------|
| | (in thousands, except per share amounts) | | | | |
| | May 29, 2021 | May 30, 2020 | June 1, 2019 | June 2, 2018 | May 27, 2017 |
| Statements of Income (Loss) | | | | | |
| Net sales | \$ 176,937 | \$ 155,898 | \$ 166,652 | \$ 163,212 | \$ 136,872 |
| Continuing Operations | | | | | |
| Income (loss) from continuing operations before tax | \$ 2,308 | \$ (1,214) | \$ (6,311) | \$ 3,860 | \$ (6,116) |
| Income tax provision | 653 | 624 | 1,017 | 1,534 | 812 |
| Income (loss) from continuing operations | \$ 1,655 | \$ (1,838) | \$ (7,328) | \$ 2,326 | \$ (6,928) |
| Discontinued Operations | | | | | |
| Income from discontinued operations | \$ — | \$ — | \$ — | \$ 1,496 | \$ — |
| Net income (loss) | \$ 1,655 | \$ (1,838) | \$ (7,328) | \$ 3,822 | \$ (6,928) |
| Per Share Data | | | | | |
| Net income (loss) per Common share - Basic: | | | | | |
| Income (loss) from continuing operations | \$ 0.13 | \$ (0.14) | \$ (0.57) | \$ 0.18 | \$ (0.55) |
| Income from discontinued operations | — | — | — | 0.12 | — |
| Total net income (loss) per Common share - Basic | <u>\$ 0.13</u> | <u>\$ (0.14)</u> | <u>\$ (0.57)</u> | <u>\$ 0.30</u> | <u>\$ (0.55)</u> |
| Net income (loss) per Class B common share - Basic: | | | | | |
| Income (loss) from continuing operations | \$ 0.11 | \$ (0.13) | \$ (0.51) | \$ 0.16 | \$ (0.49) |
| Income from discontinued operations | — | — | — | 0.11 | — |
| Total net income (loss) per Class B common share - Basic | <u>\$ 0.11</u> | <u>\$ (0.13)</u> | <u>\$ (0.51)</u> | <u>\$ 0.27</u> | <u>\$ (0.49)</u> |
| Net income (loss) per Common share - Diluted: | | | | | |
| Income (loss) from continuing operations | \$ 0.13 | \$ (0.14) | \$ (0.57) | \$ 0.18 | \$ (0.55) |
| Income from discontinued operations | — | — | — | 0.12 | — |
| Total net income (loss) per Common share - Diluted | <u>\$ 0.13</u> | <u>\$ (0.14)</u> | <u>\$ (0.57)</u> | <u>\$ 0.30</u> | <u>\$ (0.55)</u> |
| Net income (loss) per Class B common share - Diluted: | | | | | |
| Income (loss) from continuing operations | \$ 0.11 | \$ (0.13) | \$ (0.51) | \$ 0.16 | \$ (0.49) |
| Income from discontinued operations | — | — | — | 0.11 | — |
| Total net income (loss) per Class B common share - Diluted | <u>\$ 0.11</u> | <u>\$ (0.13)</u> | <u>\$ (0.51)</u> | <u>\$ 0.27</u> | <u>\$ (0.49)</u> |
| Cash Dividend Data | | | | | |
| Dividends per common share | \$ 0.24 | \$ 0.24 | \$ 0.24 | \$ 0.24 | \$ 0.24 |
| Dividends per Class B common share ⁽²⁾ | \$ 0.22 | \$ 0.22 | \$ 0.22 | \$ 0.22 | \$ 0.22 |
| Balance Sheet Data | | | | | |
| Total assets | \$ 156,753 | \$ 150,720 | \$ 153,017 | \$ 166,329 | \$ 157,464 |
| Stockholders' equity | \$ 121,560 | \$ 118,660 | \$ 123,757 | \$ 135,181 | \$ 132,327 |

(1) Our fiscal year ends on the Saturday nearest the end of May. Each of the fiscal years presented contain 52/53 weeks.

(2) The dividend per Class B common share is 90% of the dividend per Class A common share.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes.

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, critical accounting policies and estimates 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 fiscal years ended May 29, 2021, May 30, 2020 and June 1, 2019, as reflected in our consolidated statements of comprehensive income (loss).
- **Liquidity, Financial Position and Capital Resources** - a discussion of our primary sources and uses of cash for the fiscal years ended May 29, 2021, May 30, 2020 and June 1, 2019, and a discussion of changes in our financial position.

Business Overview

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value flat panel detector solutions, replacement parts, tubes and service training for diagnostic imaging equipment; and customized display solutions. 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.

We have three operating and reportable segments, which we define as follows:

Power and Microwave Technologies Group (“PMT”) 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, alternative energy, 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.

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 and deliver better clinical outcomes 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.

Results of Operations

Overview - Fiscal Year Ended May 29, 2021

- Fiscal 2021 and fiscal 2020 both contained 52 weeks.
- Net sales during fiscal 2021 were \$176.9 million, up 13.5%, compared to net sales of \$155.9 million during fiscal 2020.
- Gross margin was 33.2% of net sales during fiscal 2021, compared to 31.9% of net sales during fiscal 2020.
- Selling, general and administrative expenses, including the \$1.6 million legal settlement, were \$55.9 million, or 31.6% of net sales, during fiscal 2021, compared to \$51.3 million, or 32.9% of net sales, during fiscal 2020.
- Operating income during fiscal 2021 was \$2.9 million, compared to an operating loss of \$1.7 million during fiscal 2020.
- Other expense during fiscal 2021 was \$0.6 million, compared to other income of \$0.4 million during fiscal 2020.
- Net income during fiscal 2021 was \$1.7 million, compared to a net loss of \$1.8 million during fiscal 2020.

Net Sales and Gross Profit Analysis

Net sales by segment and percent change for fiscal 2021, fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

| Net Sales | FY 2021 | FY 2020 | FY 2019 | FY21 vs. FY20 | FY20 vs. FY19 |
|------------|-------------------|-------------------|-------------------|---------------|---------------|
| | | | | % Change | % Change |
| PMT | \$ 137,280 | \$ 118,480 | \$ 128,902 | 15.9% | (8.1%) |
| Canvys | 29,319 | 28,926 | 27,968 | 1.4% | 3.4% |
| Healthcare | 10,338 | 8,492 | 9,782 | 21.7% | (13.2%) |
| Total | <u>\$ 176,937</u> | <u>\$ 155,898</u> | <u>\$ 166,652</u> | 13.5% | (6.5%) |

During fiscal 2021, consolidated net sales increased by 13.5% compared to fiscal 2020. Sales for PMT increased by 15.9%, Canvys sales increased by 1.4% and Healthcare sales increased by 21.7%. During fiscal 2020, consolidated net sales decreased by 6.5% compared to fiscal 2019. Sales for PMT decreased by 8.1%, Canvys sales increased by 3.4% and Healthcare sales decreased by 13.2%.

Gross profit by segment and percent of segment net sales for fiscal 2021, fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

| Gross Profit | FY 2021 | | FY 2020 | | FY 2019 | |
|--------------|------------------|-------|------------------|-------|------------------|-------|
| | \$ | % | \$ | % | \$ | % |
| PMT | \$ 45,951 | 33.5% | \$ 38,288 | 32.3% | \$ 40,254 | 31.2% |
| Canvys | 10,274 | 35.0% | 9,313 | 32.2% | 9,085 | 32.5% |
| Healthcare | 2,600 | 25.1% | 2,072 | 24.4% | 2,396 | 24.5% |
| Total | <u>\$ 58,825</u> | 33.2% | <u>\$ 49,673</u> | 31.9% | <u>\$ 51,735</u> | 31.0% |

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 was \$58.8 million during fiscal 2021, compared to \$49.7 million during fiscal 2020. Consolidated gross margin as a percentage of net sales increased to 33.2% during fiscal 2021, from 31.9% during fiscal 2020, primarily due to improved product mix in all business units. Gross margin during fiscal 2021 included expense related to inventory provisions for PMT of \$0.6 million, \$0.1 million for Canvys and \$0.4 million for Healthcare.

Consolidated gross profit was \$49.7 million during fiscal 2020, compared to \$51.7 million during fiscal 2019. Consolidated gross margin as a percentage of net sales increased to 31.9% during fiscal 2020, from 31.0% during fiscal 2019, primarily due to improved product mix and manufacturing efficiencies for PMT. Gross margin during fiscal 2020 included expense related to inventory provisions for PMT of \$0.6 million, \$0.1 million for Canvys and \$0.3 million for Healthcare.

Power and Microwave Technologies Group

Net sales for PMT increased 15.9% to \$137.3 million during fiscal 2021, from \$118.5 million during fiscal 2020. This increase was due to strong growth in 5G and power management applications in our Power and Microwave Group (PMG). In addition, sales in the Semiconductor wafer fab market grew significantly due to strong demand along with year over year growth in our MRO Electron Devices products. Gross margin as a percentage of net sales increased to 33.5% during fiscal 2021 as compared to 32.3% during fiscal 2020, primarily due to improved product mix and manufacturing efficiencies.

Net sales for PMT decreased 8.1% to \$118.5 million during fiscal 2020, from \$128.9 million during fiscal 2019. This decrease was mainly due to a slowdown in the MRO replacement tube market and COVID-19 related market decline but was partially offset by growth in 5G and other RF and Power markets from new technology suppliers in our Power and Microwave Group (PMG). Gross margin as a percentage of net sales increased to 32.3% during fiscal 2020 as compared to 31.2% during fiscal 2019, primarily due to an improved product mix and manufacturing efficiencies.

Canvys – Visual Technology Solutions

Net sales for Canvys increased 1.4% to \$29.3 million during fiscal 2021, from \$28.9 million during fiscal 2020. Sales increased due to the addition of new customers and programs as well as increased customer demand in North America. The growth in North America was partially offset by lower customer demand in Europe due to the impact from the COVID-19 pandemic. Gross margin as a percentage of net sales increased to 35.0% during fiscal 2021 as compared to 32.2% during fiscal 2020, primarily due to product mix and foreign currency effects.

Net sales for Canvys increased 3.4% to \$28.9 million during fiscal 2020, from \$28.0 million during fiscal 2019. Sales were up due to the addition of new customers and programs as well as increased customer demand in North America. Gross margin as a percentage of net sales decreased to 32.2% during fiscal 2020 as compared to 32.5% during fiscal 2019 primarily due to product mix and foreign currency effects.

Healthcare

Net sales for Healthcare increased 21.7% to \$10.3 million during fiscal 2021, from \$8.5 million during fiscal 2020. The increase in sales was primarily due to a significant increase in demand for the ALTA 750D™ tubes. Gross margin as a percentage of net sales was 25.1% during fiscal 2021, compared to 24.4% during fiscal 2020. This increase was primarily due to improved equipment margins as a result of installing ALTA 750D™ tubes in the equipment, offset by under absorbed manufacturing expenses.

Net sales for Healthcare decreased 13.2% to \$8.5 million during fiscal 2020, from \$9.8 million during fiscal 2019. The decrease in sales was primarily due to the COVID-19 global pandemic. Gross margin as a percentage of net sales was 24.4% during fiscal 2020, nearly flat compared to 24.5% during fiscal 2019. This decrease was primarily due to high scrap expenses associated with CT tube development and lower sales, partially offset by improved manufacturing efficiencies and favorable product mix.

Sales by Geographic Area

On a geographic basis, our sales are categorized by destination: North America; Asia/Pacific; Europe; Latin America; and Other.

Net sales by geographic area and percent change for fiscal 2021, fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

| Net Sales | FY 2021 | FY 2020 | FY 2019 | FY21 vs. FY20 | FY20 vs. FY19 |
|---------------|-------------------|-------------------|-------------------|---------------|---------------|
| | | | | % Change | % Change |
| North America | \$ 73,625 | \$ 65,259 | \$ 66,228 | 12.8% | (1.5%) |
| Asia/Pacific | 40,839 | 32,979 | 34,681 | 23.8% | (4.9%) |
| Europe | 52,549 | 49,394 | 55,038 | 6.4% | (10.3%) |
| Latin America | 9,651 | 8,308 | 10,653 | 16.2% | (22.0%) |
| Other (1) | 273 | (42) | 52 | 750.0% | (180.8%) |
| Total | <u>\$ 176,937</u> | <u>\$ 155,898</u> | <u>\$ 166,652</u> | 13.5% | (6.5%) |

Gross profit by geographic area and percent of geographic net sales for fiscal 2021, fiscal 2020 and fiscal 2019 were as follows (*in thousands*):

| Gross Profit (Loss) | FY 2021 | | FY 2020 | | FY 2019 | |
|---------------------|------------------|----------|------------------|----------|------------------|----------|
| | Amount | % of Net | Amount | % of Net | Amount | % of Net |
| | | Sales | | Sales | | Sales |
| North America | \$ 28,639 | 38.9% | \$ 24,494 | 37.5% | \$ 24,776 | 37.4% |
| Asia/Pacific | 13,520 | 33.1% | 10,629 | 32.2% | 10,905 | 31.4% |
| Europe | 16,958 | 32.3% | 15,483 | 31.3% | 17,425 | 31.7% |
| Latin America | 3,405 | 35.3% | 2,804 | 33.8% | 3,863 | 36.3% |
| Other (1) | (3,697) | | (3,737) | | (5,234) | |
| Total | <u>\$ 58,825</u> | 33.2% | <u>\$ 49,673</u> | 31.9% | <u>\$ 51,735</u> | 31.0% |

(1) Other primarily includes 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.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased during fiscal 2021 to \$55.9 million from \$51.3 million during fiscal 2020. This increase included the \$1.6 million legal settlement which is discussed in the following section. In addition to the \$1.6 million legal settlement, SG&A expenses increased due to higher employee compensation expenses and higher legal fees, partially offset by lower travel and consulting expenses. SG&A as a percentage of sales decreased to 31.6% during fiscal 2021 as compared to 32.9% during fiscal 2020.

Selling, general and administrative expenses ("SG&A") decreased during fiscal 2020 to \$51.3 million from \$52.2 million during fiscal 2019. SG&A as a percentage of sales increased to 32.9% during fiscal 2020 as compared to 31.3% during fiscal 2019. The decrease in expense was primarily due to lower travel, severance, legal and IT expenses, partially offset by higher employee compensation expenses.

Legal Settlement

On October 15, 2018, Varex Imaging Corporation (“Varex”) filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics, Ltd. (“Richardson”) in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson’s ALTA750™ product. Richardson filed an opposition to the preliminary injunction. In January 2019, the Court took evidence on the preliminary injunction issue. On September 30, 2019, the Court denied Varex’s Motion for Preliminary Injunction. On August 6, 2020, Varex amended its Complaint to add claims of trade secret misappropriation and Richardson moved to dismiss that Amended Complaint on September 9, 2020. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter, which was recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

Other Income/Expense

Other income/expense was an expense of \$0.6 million during fiscal 2021, compared to income of \$0.4 million during fiscal 2020. Fiscal 2021 had \$0.1 million of investment income compared to \$0.4 million of investment income for fiscal 2020. Our foreign exchange gains and losses are primarily due to the translation of U.S. dollars held in non-U.S. entities. The foreign exchange loss reported for fiscal 2021 totaled \$0.8 million, compared to a slight gain for fiscal 2020. We currently do not utilize derivative instruments to manage our exposure to foreign currency.

Income Tax Provision

Our income tax provision during fiscal 2021, fiscal 2020 and fiscal 2019 was \$0.7 million, \$0.6 million and \$1.0 million, respectively. The effective income tax rates during fiscal 2021, fiscal 2020 and fiscal 2019 were 28.3%, (51.4)% and (16.1)%, respectively. The difference between the effective income tax rates as compared to the U.S. federal statutory rate of 21.0% during fiscal 2021, fiscal 2020 and fiscal 2019 was primarily driven by the impact of recording a valuation allowance against all of our U.S. state and federal net deferred tax assets and changes in our geographical distribution of income (loss).

On December 22, 2017, the U.S. government enacted new tax legislation, Tax Cuts and Jobs Act (the “Act”). The Company was subject to requirements of the Act beginning in fiscal 2019. Provisions include an income inclusion for global intangible low-taxed income (“GILTI”), a tax determined by base erosion and anti-avoidance tax (“BEAT”) related to certain payments between a U.S. corporation and foreign related entities, a limitation of certain executive compensation and a deduction for foreign derived intangible income. The Company has determined its accounting policy to treat the taxes due on GILTI as a period cost. The Company is not subject to the BEAT provision due to the revenue thresholds. During fiscal 2021, final regulations were released that provide taxpayers with a high tax exception (“HTE”) election. Given the Company’s tax profile, the Company intends to make such election with its fiscal 2021 tax return, and the forecasted GILTI inclusion has been estimated assuming the HTE is elected. The Company made this election on its fiscal 2020 tax return, adjusting its NOL and offsetting valuation allowance.

As of May 29, 2021, we had approximately \$3.0 million of net deferred tax assets related to federal net operating loss (“NOL”) carryforwards, compared to \$3.7 million as of May 30, 2020. Net deferred tax assets related to domestic state NOL carryforwards at May 29, 2021 amounted to approximately \$3.9 million, compared to \$3.8 million at May 30, 2020. Net deferred tax assets related to foreign NOL carryforwards as of May 29, 2021 totaled approximately \$0.4 million with various or indefinite expiration dates. The amount of net deferred tax assets related to foreign NOL carryforwards was \$0.3 million as of May 30, 2020. We also had a domestic net deferred tax asset of \$1.8 million of foreign tax credit carryforwards as of both May 29, 2021 and May 30, 2020. We did not have any alternative minimum tax credit carryforward as of May 29, 2021.

We have historically determined that 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 deferred tax liability related to undistributed earnings of our foreign subsidiaries was less than \$0.1 million in both fiscal 2021 and fiscal 2020.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant component of objective evidence evaluated was the cumulative income or loss incurred in each jurisdiction over the three-year period ended May 29, 2021. Such objective evidence limits the ability to consider subjective evidence such as future income projections. We considered other positive evidence in determining the need for a valuation allowance in the U.S. including the subpart F and GILTI inclusions of our foreign earnings. The weight of this positive evidence is not sufficient to outweigh other negative evidence in evaluating our need for a valuation allowance in the U.S. jurisdiction.

As of May 29, 2021, a valuation allowance of \$12.2 million was established to record only the portion of the deferred tax asset that will more likely than not be realized. The valuation allowance as of May 30, 2020 was \$12.3 million. We recorded a valuation allowance for all domestic federal and state net deferred tax assets considering the significant cumulative losses in the U.S. jurisdiction and the reversal of the deferred tax liability for foreign earnings. The valuation allowance also related to deferred tax assets in foreign jurisdictions where historical taxable losses have been incurred. 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.

Income taxes paid, including foreign estimated tax payments, were \$0.1 million, \$1.0 million and \$0.3 million, during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2015 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 are currently under examination in Thailand (fiscal 2008 through 2011) and Germany (fiscal 2015 through 2018). 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 2018.

The uncertain tax positions as of both May 29, 2021 and May 30, 2020 were \$0.1 million. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the Consolidated Statements of Comprehensive Income (Loss). Accrued interest and penalties were included within the related tax liability line in the Consolidated Balance Sheets. We have not recorded a liability for interest and penalties as of May 29, 2021 or May 30, 2020. It is not expected that there will be a change in the unrecognized tax benefits due to the expiration of various statutes of limitations within the next twelve months.

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 \$43.3 million at May 29, 2021. Cash and cash equivalents at May 29, 2021 consisted of \$26.1 million in North America, \$8.8 million in Europe, \$1.2 million in Latin America and \$7.2 million in Asia/Pacific. We repatriated a total of \$0.9 million to the United States in fiscal 2021 from several of our foreign entities. This amount includes \$0.7 million from our entities in Italy and South Korea in the third quarter of fiscal 2021 and \$0.2 million from our entity in France in the fourth quarter of fiscal 2021. 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 this Annual Report on Form 10-K for further information.

Cash, cash equivalents and investments were \$46.5 million at May 30, 2020. Cash, cash equivalents and investments at May 30, 2020, consisted of \$30.6 million in North America, \$8.3 million in Europe, \$0.9 million in Latin America and \$6.7 million in Asia/Pacific. We repatriated a total of \$8.5 million to the United States in fiscal 2020 from several of our foreign entities. This amount includes \$4.4 million from our entities in Germany and the Netherlands in the second quarter of fiscal 2020, \$1.5 million from our entity in Japan in the third quarter of fiscal 2020 and \$1.0 million from our entity in Italy in the fourth quarter of fiscal 2020.

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.

Cash Flows from Operating Activities

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

Operating activities provided \$0.8 million of cash during fiscal 2021. We had net income of \$1.7 million during fiscal 2021, which included non-cash stock-based compensation expense of \$0.7 million associated with the issuance of stock option awards and restricted stock awards, \$1.0 million of inventory provisions and depreciation and amortization expense of \$3.4 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in a use of cash of \$6.0 million during fiscal 2021, primarily due to the increase in inventories of \$4.9 million, an increase in accounts receivable of \$4.2 million and a decrease in accounts payable of \$0.6 million. These uses of cash were partially offset by the increase in our accrued liabilities of \$3.6 million and the decrease in prepaid expenses and other assets of \$0.1 million. The majority of the inventory increase was to support our electron tube and PMG businesses. The increase in accounts receivable was primarily due to the sales increase in fiscal 2021. The decrease in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services and the increase in accrued liabilities was due to the timing of employee compensation and payroll tax payments, as well as increased deferred revenue.

Operating activities provided \$1.9 million of cash during fiscal 2020. We had net loss of \$1.8 million during fiscal 2020, which included non-cash stock-based compensation expense of \$0.7 million associated with the issuance of stock option awards and restricted stock awards, \$1.0 million of inventory provisions and depreciation and amortization expense of \$3.4 million associated with our property and equipment as well as amortization of our intangible assets. Changes in our operating assets and liabilities resulted in a use of cash of \$1.3 million during fiscal 2020, primarily due to the increase in inventories of \$5.5 million and the decrease in accrued liabilities of \$0.9 million. These uses of cash were partially offset by the decrease in accounts receivable of \$3.9 million, the increase in our accounts payable of \$0.6 million and the decrease in prepaid expenses and other assets of \$0.6 million. The majority of the inventory increase was to support our electron tube and Canvys businesses and the impact of COVID-19 on sales. The decrease in accounts receivable was primarily due to the decrease in sales and better collection of receivables. The increase in our accounts payable was due to timing of payments for some of our larger vendors for both inventory and services.

Cash Flows from Investing Activities

The cash flow from investing activities consisted primarily of purchases and maturities of investments and capital expenditures.

Cash provided by investing activities of \$13.4 million during fiscal 2021 included the proceeds from the maturities of investments of \$25.0 million, partially offset by purchases of investments of \$9.0 million and \$2.6 million in capital expenditures. Capital expenditures related primarily to capital used for our IT system and Healthcare manufacturing business.

Cash used in investing activities of \$9.8 million during fiscal 2020 included purchases of investments of \$29.0 million and \$1.8 million in capital expenditures, partially offset the proceeds from the maturities of investments of \$21.0 million. Capital expenditures related primarily to capital used for our IT system, and Healthcare and LaFox manufacturing businesses.

Our purchases and proceeds from investments consist of time deposits and CDs. Purchasing of future investments may vary from period to period due to interest and foreign currency exchange rates.

Cash Flows from Financing Activities

The cash flow from financing activities primarily consists of cash dividends paid.

Cash used in financing activities of \$3.0 million during fiscal 2021 resulted primarily from cash used to pay dividends, partially offset by proceeds from the issuance of common stock from stock option exercises.

Cash used in financing activities of \$3.2 million during fiscal 2020 resulted primarily from cash used to pay dividends, partially offset by proceeds from the issuance of common stock from stock option exercises.

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.

Contractual Obligations

Contractual obligations are presented in the table below as of May 29, 2021 (*in thousands*):

| | Less than 1 year | 1 - 3 years | 4 - 5 years | More than 5 years | Less Interest | Total |
|----------------------------------|-----------------------------|------------------------|------------------------|------------------------------|----------------------|--------------|
| Lease obligations ⁽¹⁾ | \$ 1,144 | \$ 1,364 | \$ 38 | \$ 36 | \$ (158) | \$ 2,424 |

(1) Lease obligations are related to certain warehouse and office facilities under non-cancelable operating leases as well as financing leases.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles (“GAAP”) requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management continuously evaluates its critical accounting policies and estimates, including the allowance for doubtful accounts, revenue recognition, inventory obsolescence, intangible assets, loss contingencies and income taxes. Management bases the estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, however, actual results could differ from those estimates.

The policies discussed below are considered by management to be critical to understanding our financial position and the results of operations. Their application involves significant judgments and estimates in preparation of our consolidated financial statements. For all of these policies, management cautions that future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts includes estimated losses that result from uncollectible receivables. The estimates are influenced by the following: continuing credit evaluation of customers’ financial conditions; aging of receivables, individually and in the aggregate; a large number of customers which are widely dispersed across geographic areas; and collectability and delinquency history by geographic area. Significant changes in one or more of these considerations may require adjustments affecting net income and net carrying value of accounts receivable. The allowance for doubtful accounts was approximately \$0.2 million as of May 29, 2021 and \$0.3 million as of May 30, 2020.

Revenue Recognition

The Company has a number of defined revenue streams across our reportable segments. Distribution is the Company’s largest revenue stream. The distribution business does not include a separate service bundled with the product sold or sold on top of the product. Distribution typically includes products purchased from our suppliers, stocked in our warehouses and then sold to our customers. 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.

The Company also sells 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.

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

We also record discounts taken and estimate returns based on 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.

Inventories, net

Our consolidated inventories are stated at the lower of cost and net realizable value, generally using a weighted-average cost method. Our net inventories include approximately \$57.0 million of finished goods, \$3.9 million of raw materials and \$2.6 million of work-in-progress as of May 29, 2021 as compared to approximately \$51.8 million of finished goods, \$3.6 million of raw materials and \$2.1 million of work-in-progress as of May 30, 2020. The inventory reserve as of May 29, 2021 was \$5.9 million compared to \$5.4 million as of May 30, 2020.

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 an industry or market conditions differ from management's estimates, additional provisions may be necessary.

We recorded provisions to our inventory reserves of \$1.0 million, \$1.0 million and \$1.1 million during fiscal 2021, fiscal 2020 and fiscal 2019, respectively, which were included in cost of sales. The provisions were primarily for obsolete and slow moving parts. The parts were written down to estimated realizable value.

Intangible and Long-Lived 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, non-compete agreements and technology acquired in connection with the acquisitions.

We review property and equipment, definite-lived intangible assets and other long-lived assets for impairment whenever adverse events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable.

If adverse events do occur, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset or asset group. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

Additionally, we also evaluate the remaining useful life each reporting period to determine whether events and circumstances warrant a revision to the remaining period of depreciation or amortization. If the estimate of a long-lived asset's remaining useful life is changed, the remaining carrying amount of the asset is amortized prospectively over that revised remaining useful life.

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.

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.

New Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 (as amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11 and 2020-02) introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. The new standard is effective for smaller reporting companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

ITEM 7A. 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.

Foreign Currency Exposure

Even though we take into account current foreign currency exchange rates at the time an order is taken, our financial statements, denominated in a non-U.S. functional currency, are subject to foreign exchange rate fluctuations.

Our foreign denominated assets and liabilities are cash and cash equivalents, accounts receivable, inventory, accounts payable and intercompany receivables and payables, as we conduct business in countries of the European Union, Asia/Pacific and, to a lesser extent, Canada and Latin America. We do manage foreign exchange exposures by using currency clauses in certain sales contracts and we also have local debt to offset asset exposures. We have not used any derivative instruments nor entered into any forward contracts in fiscal 2021, fiscal 2020 or fiscal 2019.

Had the U.S. dollar changed unfavorably 10% against various foreign currencies, foreign denominated net sales would have been lower by an estimated \$10.0 million during fiscal 2021, an estimated \$9.3 million during fiscal 2020 and an estimated \$10.5 million during fiscal 2019. Total assets would have declined by an estimated \$4.2 million as of the fiscal year ended May 29, 2021 and an estimated \$4.3 million as of the fiscal year ended May 30, 2020, while the total liabilities would have decreased by an estimated \$1.1 million as of the fiscal year ended May 29, 2021 and an estimated \$1.0 million as of the fiscal year ended May 30, 2020.

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 this Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Richardson Electronics, Ltd.
LaFox, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Richardson Electronics, Ltd. (the “Company”) as of May 29, 2021 and May 30, 2020, the related consolidated statements of comprehensive income (loss), stockholders’ equity, and cash flows for each of the three years in the period ended May 29, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 29, 2021 and May 30, 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 29, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of May 29, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated August 2, 2021 expressed an unqualified opinion thereon.

Change in the Accounting Method Related to Leases

As discussed in Note 6 to the consolidated financial statements, the Company has changed its method of accounting for leases during the year ended May 30, 2020 due to the adoption of Accounting Standards Codification Topic 842, Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimation of Inventory Reserve - Power and Microwave Technologies ("PMT") Group

As described in Note 3 to the consolidated financial statements, the consolidated inventory balance as of May 29, 2021 was \$63.5 million, net of \$5.9 million in reserves. Inventories are stated at the lower of cost and net realizable value. Provisions for obsolete or slow-moving inventories are based upon regular analysis of obsolescence, the exiting of certain markets and assumptions about future demand and market conditions. A number of products in the PMT segment represent trailing edge technology. PMT often buys products ahead of supplier price increases and extended lead times which can create surplus inventory. As technologies evolve and customers replace their capital equipment, the market for and resulting net realizable value of PMT's products may decline.

We have identified the Company's estimation of inventory reserve for the PMT segment as a critical audit matter due to the significant judgments required by management in estimating future demand for each individual inventory item. The Company's forecasted demand, performed on an item-by-item basis, requires inputs from operations personnel and assessment of current market conditions and future industry trends, which can be difficult to predict given evolving technologies and the declining market for some products. Auditing this matter involved especially challenging auditor judgment due to the nature and extent of audit effort needed to evaluate the reasonableness of the assumptions and judgements made by management.

The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of management's estimate of future demand by (i) discussing with operations personnel, including product and sales managers, their assessment as to viability of aged and slow-moving inventory, and (ii) comparing our independently-developed estimates of future demand for slow-moving inventory (using historical customer ordering trends, industry publications, future product designs, and current uses) to management's estimates.
- Evaluating the reasonableness of management's forecasted demand by performing a retrospective comparison of prior estimates to current period sales, write-offs, and inventory consumptions.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Chicago, Illinois

August 2, 2021

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

| | <u>May 29, 2021</u> | <u>May 30, 2020</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 43,316 | \$ 30,535 |
| Accounts receivable, less allowance of \$202 and \$334, respectively | 25,096 | 20,197 |
| Inventories, net | 63,508 | 57,492 |
| Prepaid expenses and other assets | 2,385 | 2,442 |
| Investments - current | — | 16,000 |
| Total current assets | 134,305 | 126,666 |
| Non-current assets: | | |
| Property, plant and equipment, net | 17,067 | 17,674 |
| Intangible assets, net | 2,270 | 2,505 |
| Lease ROU asset | 2,570 | 3,419 |
| Non-current deferred income taxes | 541 | 456 |
| Total non-current assets | 22,448 | 24,054 |
| Total assets | \$ 156,753 | \$ 150,720 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 16,979 | \$ 17,372 |
| Accrued liabilities | 14,182 | 10,324 |
| Lease liability current | 1,066 | 1,485 |
| Total current liabilities | 32,227 | 29,181 |
| Non-current liabilities: | | |
| Non-current deferred income tax liabilities | 242 | 161 |
| Lease liability non-current | 1,358 | 1,941 |
| Other non-current liabilities | 1,366 | 777 |
| Total non-current liabilities | 2,966 | 2,879 |
| Total liabilities | 35,193 | 32,060 |
| Stockholders' Equity | | |
| Common stock, \$0.05 par value; issued and outstanding 11,160 shares at May 29, 2021 and 11,038 shares at May 30, 2020 | 558 | 552 |
| Class B common stock, convertible, \$0.05 par value; issued and outstanding 2,097 shares at May 29, 2021 and 2,097 shares at May 30, 2020 | 105 | 105 |
| Preferred stock, \$1.00 par value, no shares issued | — | — |
| Additional paid-in-capital | 62,707 | 61,749 |
| Retained earnings | 53,297 | 54,764 |
| Accumulated other comprehensive income | 4,893 | 1,490 |
| Total stockholders' equity | 121,560 | 118,660 |
| Total liabilities and stockholders' equity | \$ 156,753 | \$ 150,720 |

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

| | Fiscal Year Ended | | |
|--|--------------------------|---------------------|---------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Net sales | \$ 176,937 | \$ 155,898 | \$ 166,652 |
| Cost of sales | 118,112 | 106,225 | 114,917 |
| Gross profit | 58,825 | 49,673 | 51,735 |
| Selling, general and administrative expenses | 55,925 | 51,327 | 52,156 |
| Impairment of goodwill | — | — | 6,332 |
| Loss on disposal of assets | 13 | 3 | 23 |
| Operating income (loss) | 2,887 | (1,657) | (6,776) |
| Other expense (income): | | | |
| Investment/interest income | (76) | (377) | (540) |
| Foreign exchange loss (gain) | 759 | (15) | 84 |
| Other, net | (104) | (51) | (9) |
| Total other expense (income) | 579 | (443) | (465) |
| Income (loss) before income taxes | 2,308 | (1,214) | (6,311) |
| Income tax provision | 653 | 624 | 1,017 |
| Net income (loss) | 1,655 | (1,838) | (7,328) |
| Foreign currency translation gain (loss), net of tax | 3,403 | (900) | (1,976) |
| Comprehensive income (loss) | \$ 5,058 | \$ (2,738) | \$ (9,304) |
| Net income (loss) per share: | | | |
| Common shares - Basic | \$ 0.13 | \$ (0.14) | \$ (0.57) |
| Class B common shares - Basic | \$ 0.11 | \$ (0.13) | \$ (0.51) |
| Common shares - Diluted | \$ 0.13 | \$ (0.14) | \$ (0.57) |
| Class B common shares - Diluted | \$ 0.11 | \$ (0.13) | \$ (0.51) |
| Weighted average number of shares: | | | |
| Common shares - Basic | 11,105 | 11,026 | 10,923 |
| Class B common shares - Basic | 2,097 | 2,097 | 2,106 |
| Common shares - Diluted | 11,164 | 11,026 | 10,923 |
| Class B common shares - Diluted | 2,097 | 2,097 | 2,106 |
| Dividends per common share | \$ 0.240 | \$ 0.240 | \$ 0.240 |
| Dividends per Class B common share | \$ 0.220 | \$ 0.220 | \$ 0.220 |

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

| | Fiscal Year Ended | | |
|--|--------------------------|---------------------|---------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Operating activities: | | | |
| Net income (loss) | \$ 1,655 | \$ (1,838) | \$ (7,328) |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 3,424 | 3,386 | 3,173 |
| Inventory provisions | 1,041 | 1,013 | 1,076 |
| Loss on disposal of assets | 13 | 3 | 23 |
| Share-based compensation expense | 675 | 683 | 697 |
| Deferred income taxes | (1) | (7) | 315 |
| Impairment of goodwill | — | — | 6,332 |
| Change in assets and liabilities: | | | |
| Accounts receivable | (4,198) | 3,895 | (2,030) |
| Inventories | (4,861) | (5,452) | (4,242) |
| Prepaid expenses and other assets | 103 | 620 | 622 |
| Accounts payable | (565) | 631 | (2,424) |
| Accrued liabilities | 3,572 | (889) | 1,097 |
| Other | (26) | (122) | 126 |
| Net cash provided by (used in) operating activities | 832 | 1,923 | (2,563) |
| Investing activities: | | | |
| Capital expenditures | (2,632) | (1,776) | (3,874) |
| Proceeds from maturity of investments | 25,000 | 21,000 | 9,800 |
| Purchases of investments | (9,000) | (29,000) | (17,800) |
| Net cash provided by (used in) investing activities | 13,368 | (9,776) | (11,874) |
| Financing activities: | | | |
| Payment of financing lease principal | (181) | (166) | — |
| Proceeds from issuance of common stock | 289 | 59 | 259 |
| Cash dividends paid on Common and Class B Common shares | (3,122) | (3,101) | (3,076) |
| Net cash used in financing activities | (3,014) | (3,208) | (2,817) |
| Effect of exchange rate changes on cash and cash equivalents | 1,595 | (423) | (1,192) |
| Increase (decrease) in cash and cash equivalents | 12,781 | (11,484) | (18,446) |
| Cash and cash equivalents at beginning of period | 30,535 | 42,019 | 60,465 |
| Cash and cash equivalents at end of period | \$ 43,316 | \$ 30,535 | \$ 42,019 |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Cash paid during the fiscal year for: | | | |
| Income taxes | 106 | 1,018 | 290 |

Richardson Electronics, Ltd.
Consolidated Statements 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 | Total |
|------------------------------|---------------|-------------------|---------------|----------------------------------|----------------------|---|------------------|
| Balance June 2, 2018: | 10,806 | 2,137 | \$ 647 | \$ 60,061 | \$ 70,107 | \$ 4,366 | \$135,181 |
| Comprehensive income | | | | | | | |
| Net loss | — | — | — | — | (7,328) | — | (7,328) |
| Foreign currency translation | — | — | — | — | — | (1,976) | (1,976) |
| Share-based compensation: | — | — | — | — | — | — | — |
| Restricted stock | — | — | — | 313 | — | — | 313 |
| Stock options | — | — | — | 384 | — | — | 384 |
| Common stock: | | | | | | | |
| Options exercised | 46 | — | 2 | 257 | — | — | 259 |
| Restricted stock issuance | 65 | — | 3 | (3) | — | — | — |
| Convert Class B to Common | 40 | (40) | — | — | — | — | — |
| Dividends paid to: | | | | | | | |
| Common (\$0.24 per share) | — | — | — | — | (2,621) | — | (2,621) |
| Class B (\$0.22 per share) | — | — | — | — | (455) | — | (455) |
| Balance June 1, 2019: | 10,957 | 2,097 | \$ 652 | \$ 61,012 | \$ 59,703 | \$ 2,390 | \$123,757 |
| Comprehensive income | | | | | | | |
| Net loss | — | — | — | — | (1,838) | — | (1,838) |
| Foreign currency translation | — | — | — | — | — | (900) | (900) |
| Share-based compensation: | — | — | — | — | — | — | — |
| Restricted stock | — | — | — | 455 | — | — | 455 |
| Stock options | — | — | — | 228 | — | — | 228 |
| Common stock: | | | | | | | |
| Options exercised | 10 | — | 1 | 58 | — | — | 59 |
| Restricted stock issuance | 71 | — | 4 | (4) | — | — | — |
| Dividends paid to: | | | | | | | |
| Common (\$0.24 per share) | — | — | — | — | (2,648) | — | (2,648) |
| Class B (\$0.22 per share) | — | — | — | — | (453) | — | (453) |
| Balance May 30, 2020: | 11,038 | 2,097 | \$ 657 | \$ 61,749 | \$ 54,764 | \$ 1,490 | \$118,660 |
| Comprehensive income | | | | | | | |
| Net income | — | — | — | — | 1,655 | — | 1,655 |
| Foreign currency translation | — | — | — | — | — | 3,403 | 3,403 |
| Share-based compensation: | — | — | — | — | — | — | — |
| Restricted stock | — | — | — | 483 | — | — | 483 |
| Stock options | — | — | — | 192 | — | — | 192 |
| Common stock: | | | | | | | |
| Options exercised | 49 | — | 2 | 287 | — | — | 289 |
| Restricted stock issuance | 73 | — | 4 | (4) | — | — | — |
| Dividends paid to: | | | | | | | |
| Common (\$0.24 per share) | — | — | — | — | (2,669) | — | (2,669) |
| Class B (\$0.22 per share) | — | — | — | — | (453) | — | (453) |
| Balance May 29, 2021 | 11,160 | 2,097 | \$ 663 | \$ 62,707 | \$ 53,297 | \$ 4,893 | \$121,560 |

Notes to Consolidated Financial Statements

1. DESCRIPTION OF THE COMPANY

Richardson Electronics, Ltd. is a leading global provider of engineered solutions, power grid and microwave tubes and related consumables; power conversion and RF and microwave components; high value flat panel detector solutions, replacement parts, tubes and service training for diagnostic imaging equipment; and customized display solutions. 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.

We have three operating and reportable segments, which we define as follows:

Power and Microwave Technologies Group ("PMT") 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, alternative energy, 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.

Canyvs 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 and deliver better clinical outcomes 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.

Customer Concentration: No one customer represented more than 10 percent of our total accounts receivable balance as of May 29, 2021 or May 30, 2020. No one customer accounted for more than 10 percent of the Company's consolidated net sales in fiscal 2021, fiscal 2020 or fiscal 2019.

Supplier Concentration: One of our suppliers represented 15 percent of our total cost of sales in fiscal 2021, 16 percent in fiscal 2020 and 11 percent in fiscal 2019. The amount owed to this supplier was approximately \$2.1 million as of May 29, 2021 and \$1.3 million as of May 30, 2020.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP for all fiscal years presented.

The consolidated financial statements include our wholly owned subsidiaries. All intercompany transactions and account balances have been eliminated in consolidation.

Our fiscal year 2021 began on May 31, 2020 and ended on May 29, 2021, fiscal year 2020 began on June 2, 2019 and ended on May 30, 2020 and our fiscal year 2019 began on June 3, 2018 and ended on June 1, 2019. Unless otherwise noted, all references to a particular year in this document shall mean our fiscal year.

3. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management continuously evaluates its critical accounting policies and estimates, including the allowance for doubtful accounts, revenue recognition, inventory obsolescence, intangible assets, loss contingencies and income taxes. Management bases the estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances, however, actual results could differ from those estimates.

Fair Values of Financial Instruments: The fair values of financial instruments are determined based on quoted market prices and market interest rates as of the end of the reporting period. Our financial instruments include investments, accounts receivable, accounts payable and accrued liabilities. The fair values of these financial instruments approximate carrying values at May 29, 2021 and May 30, 2020.

Cash and Cash Equivalents: We consider short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and that have a maturity of three months or less, when purchased, to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents approximate the fair market value of these assets.

Allowance for Doubtful Accounts: Our allowance for doubtful accounts includes estimated losses that result from uncollectible receivables. The estimates are influenced by the following: continuing credit evaluation of customers' financial conditions; aging of receivables, individually and in the aggregate; a large number of customers which are widely dispersed across geographic areas; and collectability and delinquency history by geographic area. Significant changes in one or more of these considerations may require adjustments affecting net income and net carrying value of accounts receivable. The allowance for doubtful accounts was approximately \$0.2 million as of May 29, 2021 and \$0.3 million as of May 30, 2020.

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.

Revenue Recognition: The Company has a number of defined revenue streams across our reportable segments. Distribution is the Company's largest revenue stream. The distribution business does not include a separate service bundled with the product sold or sold on top of the product. Distribution typically includes products purchased from our suppliers, stocked in our warehouses and then sold to our customers. 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.

The Company also sells 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.

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

We also record discounts taken and estimate returns based on 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.

Contracts with customers

A revenue contract exists once a customer purchase order is received, reviewed and accepted. 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.

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

| | May 30, 2020 | Additions | Revenue Recognized | May 29, 2021 |
|---|-------------------------|------------------|-------------------------------|-------------------------|
| Contract liabilities (deferred revenue) | \$ 1,671 | \$ 4,614 | \$ (2,972) | \$ 3,313 |

The Company receives advance payments or deposits from our customers before revenue is recognized resulting in contract liabilities. Contract liabilities are included in accrued liabilities in the consolidated balance sheets.

Performance obligations and satisfaction of performance obligation in the contract

Each accepted purchase order identifies a distinct good or service as the performance obligation. The goods are generally standard products we purchased from a supplier and stocked on our shelves. They can also be customized products purchased from a supplier or products that are customized or have value added to them in house prior to shipping to the customer. 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 do not require, upon cancellation, 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. For shipping point, the Company is making the election under ASC 606-10-25-18B 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. 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.

Determine the transaction price and variable consideration

The transaction price for each product is the amount invoiced to the customer. Each product on a purchase order is a separate performance obligation with an observable standalone selling price. The transaction price is a fixed price per unit, except for the variable consideration. The Company elects to exclude sales tax from the transaction price.

Recognize revenue when the entity satisfies a performance obligation

We recognize revenue at a point in time when title transfers to the customer, at the shipping point for FOB shipping contracts and at the customer's delivery location for FOB destination contracts. We believe that the transfer of title best represents when the customer obtains control of the goods. Prior to that date, we do not have right to payment, and the significant risks and rewards remain with us. The significant risks and rewards of ownership of the inventory transfer simultaneously with the transfer of title. The customer's acceptance of the goods is based on objective measurements, not subjective.

Additional considerations

Sale with right of return:

Our return policy is available to customers in our terms and conditions found on our website www.rell.com. The policy varies by business unit. The Company allows returns with prior written authorization and we allow returns within ten days of shipment for replacement parts.

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 for further consideration. Returns for defective product are typically covered by our suppliers' warranty, thus, returns for defective product are not factored into our reserve.

Warranties:

We offer warranties for the limited number of specific products we manufacture. For further information regarding the impact of warranties see the *Warranties* discussion included elsewhere in Note 3.

Principal versus agent considerations:

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.

See Note 9, *Segment and Geographic Information*, 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.

Foreign Currency Translation: The functional currency is the local currency at all foreign locations, with the exception of Hong Kong, where the functional currency is the U.S. dollar. Balance sheet items for our foreign entities, included in our consolidated balance sheets, are translated into U.S. dollars at end-of-period spot rates. Gains and losses resulting from translation of foreign subsidiary financial statements are credited or charged directly to accumulated other comprehensive income, a component of stockholders' equity. Revenues and expenses are translated at the current rate on the date of the transaction. Gains and losses resulting from foreign currency transactions are included in income. Foreign exchange (gain) loss reflected in our consolidated statements of comprehensive income (loss) were \$0.8 million loss during fiscal 2021, a small gain during fiscal 2020 and a loss of less than \$0.1 million during fiscal 2019.

Shipping and Handling Fees and Costs: Shipping and handling costs billed to customers are reported as revenue and the related costs are reported as a component of cost of sales.

Inventories, net: Our consolidated inventories are stated at the lower of cost and net realizable value, generally using a weighted-average cost method. Our net inventories include approximately \$57.0 million of finished goods, \$3.9 million of raw materials and \$2.6 million of work-in-progress as of May 29, 2021 as compared to approximately \$51.8 million of finished goods, \$3.6 million of raw materials and \$2.1 million of work-in-progress as of May 30, 2020. The inventory reserve as of May 29, 2021 was \$5.9 million compared to \$5.4 million as of May 30, 2020.

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.

We recorded provisions to our inventory reserves of \$1.0 million, \$1.0 million and \$1.1 million during fiscal 2021, fiscal 2020 and fiscal 2019, respectively, which were included in cost of sales. The provisions were primarily for obsolete and slow moving parts. The parts were written down to estimated realizable value.

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.

Investments: As of May 29, 2021, we had no investments. As of May 30, 2020, we invested in time deposits and certificates of deposit (“CDs”) in the amount of \$16.0 million. We liquidated our investments in the fourth quarter of 2021.

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, non-compete agreements and technology acquired in connection with the acquisitions.

Property, Plant and Equipment: Property, plant and equipment are stated at cost, net of accumulated depreciation. Improvements and replacements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful life of the asset. Depreciation expense was approximately \$3.2 million, \$3.1 million and \$2.9 million during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

Property, plant and equipment consist of the following (*in thousands*):

| | May 29, 2021 | May 30, 2020 |
|---|---------------------|---------------------|
| Land and improvements | \$ 1,385 | \$ 1,385 |
| Buildings and improvements | 22,837 | 22,525 |
| Computer, communications equipment and software | 11,029 | 10,775 |
| Machinery and other equipment | 14,930 | 14,326 |
| Construction in progress | 1,429 | 750 |
| | \$ 51,610 | \$ 49,761 |
| Accumulated depreciation | (34,543) | (32,087) |
| Property, plant, and equipment, net | <u>\$ 17,067</u> | <u>\$ 17,674</u> |

Construction in progress at May 29, 2021 includes \$0.8 million related to our Healthcare growth initiatives. All projects are expected to be completed before the end of fiscal 2022.

Supplemental disclosure information of the estimated useful life of the assets:

| | |
|---|---------------|
| Land improvements | 10 years |
| Buildings and improvements | 10 - 30 years |
| Computer, communications equipment and software | 3 - 10 years |
| Machinery and other equipment | 3 - 20 years |

We review property and equipment, definite-lived intangible assets and other long-lived assets for impairment whenever adverse events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable.

If adverse events do occur, our impairment review is based on an undiscounted cash flow analysis at the lowest level at which cash flows of the long-lived assets are largely independent of other groups of our assets and liabilities. This analysis requires management judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates. We conduct annual reviews for idle and underutilized equipment and review business plans for possible impairment. Impairment occurs when the carrying value of the assets exceeds the future undiscounted cash flows expected to be earned by the use of the asset or asset group. When impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset or asset group and an impairment charge is recorded for the difference between the carrying value and the estimated fair value.

Additionally, we also evaluate the remaining useful life of each reporting period to determine whether events and circumstances warrant a revision to the remaining period of depreciation or amortization. If the estimate of a long-lived asset's remaining useful life is changed, the remaining carrying amount of the asset is amortized prospectively over that revised remaining useful life.

Accrued Liabilities: Accrued liabilities consist of the following (*in thousands*):

| | May 29, 2021 | May 30, 2020 |
|--------------------------------|------------------|------------------|
| Compensation and payroll taxes | \$ 4,945 | \$ 3,469 |
| Accrued severance | 685 | 650 |
| Professional fees | 533 | 471 |
| Deferred revenue | 3,313 | 1,671 |
| Other accrued expenses | 4,706 | 4,063 |
| Accrued Liabilities | \$ 14,182 | \$ 10,324 |

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 (loss). Each quarter, we assess actual warranty costs incurred on a product-by-product basis and compare the warranty costs to our estimated warranty obligation. With respect to new products, estimates are based generally on knowledge of the products and warranty experience.

Warranty reserves are established for costs that are expected to be incurred after the sale and delivery of products under warranty. Warranty reserves are included in accrued liabilities on our consolidated balance sheets. The warranty reserves are determined based on known product failures, historical experience and other available evidence.

Changes in the warranty reserve during fiscal 2021 and fiscal 2020 were as follows (*in thousands*):

| | Warranty Reserve |
|--------------------------------|---------------------|
| Balance at June 1, 2019 | \$ 295 |
| Accruals for products sold | 201 |
| Utilization | (30) |
| Balance at May 30, 2020 | \$ 466 |
| Accruals for products sold | 121 |
| Utilization | (39) |
| Balance at May 29, 2021 | \$ 548 |

Other Non-Current Liabilities: Other non-current liabilities of \$1.4 million at May 29, 2021 and \$0.8 million at May 30, 2020, primarily represent employee-benefits obligations in various non-US locations.

Share-Based Compensation: We measure and recognize share-based compensation cost at fair value for all share-based payments, including stock options and restricted stock awards. We estimate fair value using the Black-Scholes option-pricing model, which requires assumptions such as expected volatility, risk-free interest rate, expected life and dividends. Compensation cost is recognized using a graded vesting schedule over the applicable vesting period. Share-based compensation expense totaled approximately \$0.7 million during fiscal 2021, \$0.7 million during fiscal 2020 and \$0.7 million during fiscal 2019.

Stock options granted generally vest over a period of five years and have contractual terms to exercise of 10 years. A summary of stock option activity is as follows (*in thousands, except option prices and years*):

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (1) |
|--|----------------------|--|---|-------------------------------------|
| Options Outstanding at June 2, 2018 | 1,195 | \$ 8.89 | | |
| Granted | 279 | 9.02 | | |
| Exercised | (46) | 5.61 | | |
| Forfeited | (58) | 8.10 | | |
| Cancelled | (6) | 5.03 | | |
| Options Outstanding at June 1, 2019 | 1,364 | \$ 9.08 | | |
| Granted | 187 | 5.61 | | |
| Exercised | (10) | 5.67 | | |
| Cancelled | (114) | 6.87 | | |
| Options Outstanding at May 30, 2020 | 1,427 | \$ 8.83 | | |
| Granted | 188 | 4.26 | | |
| Exercised | (49) | 5.93 | | |
| Forfeited | (7) | 5.96 | | |
| Cancelled | (104) | 12.53 | | |
| Options Outstanding at May 29, 2021 | 1,455 | \$ 8.08 | 5.5 | \$ 2,114 |
| Options Vested at May 29, 2021 | 950 | \$ 9.11 | 4.2 | \$ 833 |

- (1) Includes only those options that were in-the-money as of May 29, 2021. Stock options for which the exercise price exceeded the market price have been omitted. Fluctuations in the intrinsic value of both outstanding and exercisable options may result from changes in underlying stock price and timing and volume of option grants, exercises and forfeitures.

There were 48,825 stock options exercised during fiscal 2021, with cash received of \$0.3 million. The total intrinsic value of options exercised was \$0.1 million during fiscal 2021 and was less than \$0.1 million during both fiscal 2020 and fiscal 2019. The weighted average fair value of stock option grants was \$0.49 during fiscal 2021, \$0.81 during fiscal 2020 and \$1.71 during fiscal 2019. As of May 29, 2021, total unrecognized compensation costs related to unvested stock options and restricted stock awards was approximately \$0.8 million, which is expected to be recognized over the remaining weighted average period of approximately two to four years. The total grant date fair value of stock options vested during fiscal 2021 was \$0.2 million.

The fair value of stock options is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | Fiscal Year Ended | | |
|-------------------------|-------------------|-----------------|-----------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Expected volatility | 27.72% | 24.48% | 22.24% |
| Risk-free interest rate | 0.45% | 1.91% | 2.82% |
| Expected lives (years) | 6.50 | 6.50 | 6.36 |
| Annual cash dividend | \$ 0.24 | \$ 0.24 | \$ 0.24 |

The expected volatility assumptions are based on historical experience commensurate with the expected term. The risk-free interest rate is based on the yield of a treasury note with a remaining term equal to the expected life of the stock option.

The expected stock option life assumption is based on the Securities and Exchange Commission's ("SEC") guidance in Staff Accounting Bulletin ("SAB") No. 107 ("SAB No. 107"). For stock options granted during fiscal 2021, fiscal 2020 and fiscal 2019, we believe that our historical stock option experience does not provide a reasonable basis upon which to estimate expected term.

The following table summarizes information about stock options outstanding at May 29, 2021 (*in thousands, except option prices and years*):

| Exercise Price Range | Outstanding | | | | Vested | | | |
|----------------------|---------------------|---------------------------------|-----------------------|---------------------------|-------------------|---------------------------------|-----------------------|---------------------------|
| | Shares | Weighted Average Exercise Price | Weighted Average Life | Aggregate Intrinsic Value | Shares | Weighted Average Exercise Price | Weighted Average Life | Aggregate Intrinsic Value |
| \$4.26 to \$6.47 | 566 | \$ 5.26 | 7.6 | \$ 1,866 | 220 | \$ 5.65 | 6.4 | \$ 638 |
| \$6.90 to \$10.01 | 548 | \$ 8.67 | 5.7 | \$ 248 | 390 | \$ 8.69 | 5.2 | \$ 195 |
| \$11.14 to \$13.76 | 341 | \$ 11.82 | 1.6 | \$ — | 340 | \$ 11.82 | 1.6 | \$ — |
| Total | <u>1,455</u> | \$ 8.08 | 5.5 | \$ <u>2,114</u> | <u>950</u> | \$ 9.11 | 4.2 | \$ <u>833</u> |

As of May 29, 2021 a summary of restricted stock award transactions was as follows (*in thousands*):

| | Unvested Restricted Shares |
|---------------------------------|----------------------------|
| Unvested at June 1, 2019 | 116 |
| Granted | 73 |
| Vested | (47) |
| Unvested at May 30, 2020 | 142 |
| Granted | 73 |
| Vested | (71) |
| Unvested at May 29, 2021 | <u>144</u> |

Compensation effects arising from issuing stock awards have been charged against income and recorded as additional paid-in-capital in the consolidated statements of stockholders' equity during fiscal 2021, fiscal 2020 and fiscal 2019.

The Employees' Amended and Restated 2011 Long-Term Incentive Compensation Plan (the "Plan") authorizes the issuance of up to 3,500,000 shares as incentive stock options, non-qualified stock options or stock awards. Under this plan, 1,558,000 shares are reserved for future issuance. The Plan authorizes the granting of stock options at the fair market value at the date of grant. Generally, these options become exercisable over five years and expire up to 10 years from the date of grant. Restricted stock awards vest on the anniversary of the grant date in three equal installments.

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 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.

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

| | For the Fiscal Year Ended | | | | | |
|--|---------------------------|------------|--------------|------------|--------------|-------------|
| | May 29, 2021 | | May 30, 2020 | | June 1, 2019 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| <i>Numerator for Basic and Diluted EPS:</i> | | | | | | |
| Net income (loss) | \$ 1,655 | \$ 1,655 | \$ (1,838) | \$ (1,838) | \$ (7,328) | \$ (7,328) |
| Less dividends: | | | | | | |
| Common stock | 2,669 | 2,669 | 2,648 | 2,648 | 2,621 | 2,621 |
| Class B common stock | 453 | 453 | 453 | 453 | 455 | 455 |
| Undistributed losses | \$ (1,467) | \$ (1,467) | \$ (4,939) | \$ (4,939) | \$ (10,404) | \$ (10,404) |
| Common stock undistributed losses | \$ (1,254) | \$ (1,255) | \$ (4,217) | \$ (4,217) | \$ (8,866) | \$ (8,866) |
| Class B common stock undistributed losses | (213) | (212) | (722) | (722) | (1,538) | (1,538) |
| Total undistributed losses | \$ (1,467) | \$ (1,467) | \$ (4,939) | \$ (4,939) | \$ (10,404) | \$ (10,404) |
| <i>Denominator for Basic and Diluted EPS:</i> | | | | | | |
| Common stock weighted average shares | 11,105 | 11,105 | 11,026 | 11,026 | 10,923 | 10,923 |
| Effect of dilutive securities | | | | | | |
| Dilutive stock options | | 59 | | — | | — |
| Denominator for diluted EPS adjusted for weighted average shares and assumed conversions | | 11,164 | | 11,026 | | 10,923 |
| Class B common stock weighted average shares, and shares under if-converted method for diluted EPS | 2,097 | 2,097 | 2,097 | 2,097 | 2,106 | 2,106 |
| Net income (loss) per share: | | | | | | |
| Common stock | \$ 0.13 | \$ 0.13 | \$ (0.14) | \$ (0.14) | \$ (0.57) | \$ (0.57) |
| Class B common stock | \$ 0.11 | \$ 0.11 | \$ (0.13) | \$ (0.13) | \$ (0.51) | \$ (0.51) |

Note: There were no common stock options that were anti-dilutive for fiscal 2021. For fiscal 2020 and fiscal 2019, the common stock options that were anti-dilutive and not included in diluted earnings per common share were 1,120 and 882, respectively.

New Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 (as amended by ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, ASU 2019-11 and 2020-02) introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. The new standard is effective for smaller reporting companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

4. 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. The lease agreement provides for monthly payments over five years with total future minimum lease payments of \$0.6 million. Rental expense related to this lease amounted to \$0.1 million for the fiscal years ended May 29, 2021, May 30, 2020 and June 1, 2019.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As a result of the Company's annual impairment review as of March 3, 2019, and after reviewing the totality of events and circumstances as provided in ASU 2011-08, we determined that it was more likely than not that the fair value for the IMES reporting unit was less than its carrying value. Accordingly, we performed the quantitative impairment test using the income method, which was based on a discounted future cash flow approach that used the significant assumptions of projected revenue, projected operational profit, terminal growth rates and the cost of capital. The Guideline Public Company Method was also considered in the goodwill impairment assessment.

The quantitative impairment test determined that IMES reporting unit's carrying value exceeded its fair value by an amount that exceeded the recorded goodwill balance. As a result, in the fourth quarter of fiscal 2019, the Company recorded a non-cash goodwill impairment charge of \$6.3 million for the full amount of the goodwill associated with the IMES reporting unit.

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 and are tested for impairment when events or changes in circumstances occur that indicate possible impairment. No impairment was recognized in fiscal 2021, fiscal 2020 or fiscal 2019.

Our intangible assets represent the fair value for trade name, customer relationships, non-compete agreements and technology acquired in connection with our acquisitions. Intangible assets subject to amortization were as follows (*in thousands*):

| | May 29, 2021 | May 30, 2020 |
|---------------------------------------|-----------------|-----------------|
| Gross Amounts: | | |
| Trade Name | \$ 659 | \$ 659 |
| Customer Relationships (1) | 3,426 | 3,388 |
| Non-compete Agreements | 177 | 177 |
| Technology | 230 | 230 |
| Total Gross Amounts | \$ 4,492 | \$ 4,454 |
| Accumulated Amortization: | | |
| Trade Name | \$ 659 | \$ 659 |
| Customer Relationships | 1,249 | 1,000 |
| Non-compete Agreements | 177 | 161 |
| Technology | 137 | 129 |
| Total Accumulated Amortization | \$ 2,222 | \$ 1,949 |
| Net Intangible Assets | \$ 2,270 | \$ 2,505 |

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

Under ASC 350, companies must perform the annual test for impairment for indefinite life intangible assets, for which the Company has none, as well as test definite life assets for impairment in the event of a "trigger event" such as adverse changes in the business climate or market which might negatively impact the value of a reporting unit. We determined that the intangible assets were not impaired as of May 29, 2021 on the basis that no adverse events or changes in circumstances were identified that could indicate that the carrying amounts of such assets may not be recoverable.

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 |
|-----------------------------------|-------------------------|
| 2022 | \$ 253 |
| 2023 | 246 |
| 2024 | 233 |
| 2025 | 220 |
| 2026 | 185 |
| Thereafter | 1,133 |
| Total amortization expense | \$ 2,270 |

The amortization expense associated with the intangible assets totaled approximately \$0.2 million during fiscal 2021, fiscal 2020 and fiscal 2019. The weighted average number of years of amortization expense remaining is 12.4 years.

6. 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 has two types of operating leases: leases for facility space and leases for automobiles. Most of the leased facility space is for sales and general office use. Automobile leases are used throughout the Company. The financing lease is used for our computer servers

The new standard was effective for the Company on June 2, 2019. The FASB issued ASU 2018-11, targeted improvements to Topic 842, which includes an option to not restate comparative periods in transition and elect to use the effective date of Topic 842 as the date of initial application of transition. We adopted the new standard applying the new transition method allowed under ASU 2018-11. As a result of adopting Topic 842, at June 2, 2019, we recognized operating right-of-use assets of \$3.6 million, financing right-of-use assets of \$0.5 million, operating lease liabilities of \$3.8 million and financing lease liabilities of \$0.5 million. 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 is reasonably certain it will renew the lease. The standard did not have a material impact on our results of operations or cash flows.

The gross amounts of assets and liabilities related to both operating and financing leases at May 29, 2021 and May 30, 2020 were as follows (*in thousands*):

| Lease Type | May 29, 2021 | May 30, 2020 |
|---------------------------------------|--------------|--------------|
| Operating lease ROU asset | \$ 2,262 | \$ 3,018 |
| Financing lease ROU asset | 308 | 401 |
| Total Lease ROU asset | \$ 2,570 | \$ 3,419 |
| Operating lease liability current | \$ 918 | \$ 1,329 |
| Financing lease liability current | 148 | 156 |
| Total lease liability current | \$ 1,066 | \$ 1,485 |
| Operating lease liability non-current | \$ 1,358 | \$ 1,778 |
| Financing lease liability non-current | - | 163 |
| Total lease liability non-current | \$ 1,358 | \$ 1,941 |

The components of lease costs for fiscal 2021 and fiscal 2020 were as follows (*in thousands*):

| Lease Type | Classification | Fiscal Year Ended | |
|---|--------------------|-------------------|--------------|
| | | May 29, 2021 | May 30, 2020 |
| Consolidated operating lease expense | Operating expenses | \$ 1,939 | \$ 1,963 |
| Consolidated financing lease amortization | Operating expenses | 92 | 62 |
| Consolidated financing lease interest | Interest expense | 11 | 22 |
| Consolidated financing lease expense | | 103 | 84 |
| Net lease cost | | \$ 2,042 | \$ 2,047 |

Rent expense for fiscal 2021, fiscal 2020 and fiscal 2019 was \$1.7 million, \$1.8 million, and \$1.7 million, respectively.

Our future lease commitments for minimum rentals, including common area maintenance charges and property taxes during the next five years are as follows (*in thousands*):

| Fiscal Year | Operating Leases | Financing Leases | Total |
|----------------------------|------------------|------------------|----------|
| 2022 | \$ 993 | \$ 151 | \$ 1,144 |
| 2023 | 713 | — | 713 |
| 2024 | 441 | — | 441 |
| 2025 | 210 | — | 210 |
| 2026 | 38 | — | 38 |
| Thereafter | 36 | — | 36 |
| Total lease payments | 2,431 | 151 | 2,582 |
| Less imputed interest | 155 | 3 | 158 |
| Net minimum lease payments | \$ 2,276 | \$ 148 | \$ 2,424 |

The weighted average remaining lease terms and interest rates of leases held by the Company as of May 29, 2021 were as follows:

| Lease Type | Weighted Average Remaining Lease Term in Years | Weighted Average Interest Rate |
|------------------|--|--------------------------------|
| Operating leases | 2.7 | 4.6% |
| Financing leases | 0.9 | 4.6% |

The cash outflows of the leasing activity of the Company as lessee for fiscal 2021 and fiscal 2020 were as follows (*in thousands*):

| Cash Flow Source | Classification | Fiscal Year Ended | |
|--|----------------------|-------------------|--------------|
| | | May 29, 2021 | May 30, 2020 |
| Operating cash flows from operating leases | Operating activities | \$ 831 | \$ 924 |
| Operating cash flows from financing leases | Operating activities | 170 | 149 |
| Finance cash flows from financing leases | Financing activities | 181 | 166 |

7. INCOME TAXES

Income (loss) before income taxes included the following components (*in thousands*):

| | Fiscal Year Ended | | |
|-----------------------------------|-------------------|--------------|--------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| United States | \$ 1,077 | \$ (3,716) | \$ (9,971) |
| Foreign | 1,231 | 2,502 | 3,660 |
| Income (loss) before income taxes | \$ 2,308 | \$ (1,214) | \$ (6,311) |

The provision for income taxes for fiscal 2021, fiscal 2020 and fiscal 2019 consisted of the following (*in thousands*):

| | Fiscal Year Ended | | |
|-----------------------------|--------------------------|-------------------------|-------------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Current: | | | |
| Federal | \$ 108 | \$ — | \$ 33 |
| State | — | — | 3 |
| Foreign | 665 | 616 | 652 |
| Total current | \$ 773 | \$ 616 | \$ 688 |
| Deferred: | | | |
| Federal | \$ — | \$ (88) | \$ (104) |
| Foreign | (120) | 96 | 433 |
| Total deferred | \$ (120) | \$ 8 | \$ 329 |
| Income tax provision | \$ 653 | \$ 624 | \$ 1,017 |

The differences between income taxes at the U.S. federal statutory income tax rate of 21.0% for fiscal 2021, fiscal 2020 and fiscal 2019 and the reported income tax provision for fiscal 2021, fiscal 2020 and fiscal 2019, are summarized as follows:

| | Fiscal Year Ended | | |
|---|--------------------------|-------------------------|-------------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Federal statutory rate | 21.0% | 21.0% | 21.0% |
| Effect of: | | | |
| State income taxes, net of federal tax benefit | 21.6 | 6.6 | 5.4 |
| Foreign taxes at other rates | 10.5 | (15.3) | (4.1) |
| Permanent tax differences | 18.3 | (41.1) | (16.1) |
| Change in valuation allowance for deferred tax assets | (49.7) | (29.8) | (22.8) |
| Return to provision adjustments | 2.2 | 1.4 | (0.5) |
| Other | 4.4 | 5.8 | 1.0 |
| Effective tax rate | 28.3% | (51.4)% | (16.1)% |

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components as of May 29, 2021 and May 30, 2020 were as follows (*in thousands*):

| | Fiscal Year Ended | |
|---|--------------------------|-------------------------|
| | May 29, 2021 | May 30, 2020 |
| Deferred tax assets: | | |
| NOL carryforwards - foreign and domestic | \$ 7,362 | \$ 7,834 |
| Inventory valuations | 1,501 | 1,388 |
| Goodwill | 1,286 | 1,390 |
| Foreign tax credits | 1,782 | 1,782 |
| Severance reserve | 185 | 165 |
| Foreign capital loss | 1,261 | 1,167 |
| Other | 1,469 | 1,847 |
| Subtotal | \$ 14,846 | \$ 15,573 |
| Valuation allowance - foreign and domestic | (12,225) | (12,322) |
| Net deferred tax assets after valuation allowance | \$ 2,621 | \$ 3,251 |
| Deferred tax liabilities: | | |
| Accelerated depreciation | \$ (2,279) | \$ (2,944) |
| Tax on undistributed earnings | (24) | (24) |
| Other | 18 | 13 |
| Subtotal | \$ (2,285) | \$ (2,955) |
| Net deferred tax assets | <u>\$ 336</u> | <u>\$ 296</u> |
| Supplemental disclosure of net deferred tax assets, excluding valuation allowance: | | |
| Domestic | \$ 10,653 | \$ 10,925 |
| Foreign | 1,913 | 1,693 |
| Total | <u>\$ 12,566</u> | <u>\$ 12,618</u> |

On December 22, 2017, the U.S. government enacted new tax legislation, Tax Cuts and Jobs Act (the “Act”). The Company was subject to requirements of the Act beginning in fiscal 2019. Provisions include an income inclusion for global intangible low-taxed income (“GILTI”), a tax determined by base erosion and anti-avoidance tax (“BEAT”) related to certain payments between a U.S. corporation and foreign related entities, a limitation of certain executive compensation and a deduction for foreign derived intangible income. The Company has determined its accounting policy to treat the taxes due on GILTI as a period cost. The Company is not subject to the BEAT provision due to the revenue thresholds. During fiscal 2021, final regulations were released that provide taxpayers with a high tax exception (“HTE”) election. Given the Company’s tax profile, the Company intends to make such election with its fiscal 2021 tax return, and the forecasted GILTI inclusion has been estimated assuming the HTE is elected. The Company made this election on its fiscal 2020 tax return, adjusting its NOL and offsetting valuation allowance.

As of May 29, 2021, we had approximately \$3.0 million of net deferred tax assets related to federal net operating loss (“NOL”) carryforwards, compared to \$3.7 million as of May 30, 2020. Net deferred tax assets related to domestic state NOL carryforwards at May 29, 2021 amounted to approximately \$3.9 million, compared to \$3.8 million at May 30, 2020. Net deferred tax assets related to foreign NOL carryforwards as of May 29, 2021 totaled approximately \$0.4 million with various or indefinite expiration dates. The amount of net deferred tax assets related to foreign NOL carryforwards was \$0.3 million as of May 30, 2020. We also had a domestic net deferred tax asset of \$1.8 million of foreign tax credit carryforwards as of both May 29, 2021 and May 30, 2020. We did not have any alternative minimum tax credit carryforward as of May 29, 2021.

We have historically determined that 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 deferred tax liability related to undistributed earnings of our foreign subsidiaries was less than \$0.1 million in both fiscal 2021 and fiscal 2020.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant component of objective evidence evaluated was the cumulative income or loss incurred in each jurisdiction over the three-year period ended May 29, 2021. Such objective evidence limits the ability to consider subjective evidence such as future income projections. We considered other positive evidence in determining the need for a

valuation allowance in the U.S. including the subpart F and GILTI inclusions of our foreign earnings. The weight of this positive evidence is not sufficient to outweigh other negative evidence in evaluating our need for a valuation allowance in the U.S. jurisdiction.

As of May 29, 2021, a valuation allowance of \$12.2 million was established to record only the portion of the deferred tax asset that will more likely than not be realized. The valuation allowance as of May 30, 2020 was \$12.3 million. We recorded a valuation allowance for all domestic federal and state net deferred tax assets considering the significant cumulative losses in the U.S. jurisdiction and the reversal of the deferred tax liability for foreign earnings. The valuation allowance also related to deferred tax assets in foreign jurisdictions where historical taxable losses have been incurred. 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.

Income taxes paid, including foreign estimated tax payments, were \$0.1 million, \$1.0 million and \$0.3 million, during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. Generally, years prior to fiscal 2015 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 are currently under examination in Thailand (fiscal 2008 through 2011) and Germany (fiscal 2015 through 2018). 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 2018.

The uncertain tax positions as of both May 29, 2021 and May 30, 2020 were \$0.1 million. We record penalties and interest related to uncertain tax positions in the income tax expense line item within the Consolidated Statements of Comprehensive Income (Loss). Accrued interest and penalties were included within the related tax liability line in the Consolidated Balance Sheets. We have not recorded a liability for interest and penalties as of May 29, 2021 or May 30, 2020. It is not expected that there will be a change in the unrecognized tax benefits due to the expiration of various statutes of limitations within the next twelve months.

The following table summarizes the activity related to the unrecognized tax benefits (*in thousands*):

| | Fiscal Year Ended | |
|--|--------------------------|-------------------------|
| | May 29, 2021 | May 30, 2020 |
| Unrecognized tax benefits, beginning of period | \$ 129 | \$ 130 |
| Currency translation adjustment | 13 | (1) |
| Unrecognized tax benefits, end of period | <u>\$ 142</u> | <u>\$ 129</u> |

8. EMPLOYEE BENEFIT PLANS

Employee Profit Sharing Plan: The employee profit sharing plan is a defined contribution profit sharing plan. The profit sharing plan has a 401(k) provision whereby we match 50% of employee contributions up to 4.0% of pay. Charges to expense for matching contributions to this plan were \$0.6 million, \$0.5 million and \$0.5 million, during fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

9. SEGMENT AND GEOGRAPHIC INFORMATION

In accordance with ASC 280-10, *Segment Reporting*, we have identified three reportable segments: PMT, Canvys and Healthcare.

PMT 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, alternative energy, 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.

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 and deliver better clinical outcomes 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*):

| | Fiscal Year Ended | | |
|--------------------------|--------------------------|---------------------|---------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| <u>PMT</u> | | | |
| Net Sales | \$ 137,280 | \$ 118,480 | \$ 128,902 |
| Gross Profit | 45,951 | 38,288 | 40,254 |
| <u>Canvys</u> | | | |
| Net Sales | \$ 29,319 | \$ 28,926 | \$ 27,968 |
| Gross Profit | 10,274 | 9,313 | 9,085 |
| <u>Healthcare</u> | | | |
| Net Sales | \$ 10,338 | \$ 8,492 | \$ 9,782 |
| Gross Profit | 2,600 | 2,072 | 2,396 |

A reconciliation of assets to the relevant consolidated amount is as follows (*in thousands*):

| | May 29, 2021 | May 30, 2020 |
|--|---------------------|---------------------|
| Segment assets | \$ 100,638 | \$ 89,231 |
| Cash and cash equivalents | 43,316 | 30,535 |
| Investments - current | — | 16,000 |
| Other current assets (1) | 1,918 | 2,545 |
| Net property, plant and equipment | 9,300 | 10,267 |
| Operating lease ROU asset | 732 | 1,285 |
| Financing lease ROU asset | 308 | 401 |
| Other assets - non-current deferred income taxes | 541 | 456 |
| Total assets | \$ 156,753 | \$ 150,720 |

(1) Other current assets include miscellaneous receivables and prepaid expenses.

Assets are not disclosed by reportable segment as the Company does not track assets by reportable segment and certain assets are not specific to any reportable segment.

Capital expenditures for our Healthcare segment during fiscal 2021 and fiscal 2020 were approximately \$1.7 million and \$0.4 million, respectively. In addition, we also had capital expenditures during fiscal 2021 and fiscal 2020 related to the Company's ERP system as well as facilities that were not specific to any particular reportable segment.

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*):

| | Fiscal Year Ended | | |
|---------------------|--------------------------|---------------------|---------------------|
| | May 29, 2021 | May 30, 2020 | June 1, 2019 |
| Net Sales | | | |
| North America | \$ 73,625 | \$ 65,259 | \$ 66,228 |
| Asia/Pacific | 40,839 | 32,979 | 34,681 |
| Europe | 52,549 | 49,394 | 55,038 |
| Latin America | 9,651 | 8,308 | 10,653 |
| Other (1) | 273 | (42) | 52 |
| Total | <u>\$ 176,937</u> | <u>\$ 155,898</u> | <u>\$ 166,652</u> |
| Gross Profit | | | |
| North America | \$ 28,639 | \$ 24,494 | \$ 24,776 |
| Asia/Pacific | 13,520 | 10,629 | 10,905 |
| Europe | 16,958 | 15,483 | 17,425 |
| Latin America | 3,405 | 2,804 | 3,863 |
| Other (1) | (3,697) | (3,737) | (5,234) |
| Total | <u>\$ 58,825</u> | <u>\$ 49,673</u> | <u>\$ 51,735</u> |

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

Major Customers

During fiscal 2021, fiscal 2020 and fiscal 2019, no one customer accounted for more than 10 percent of the Company's consolidated net sales.

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.

Net assets by geographic region are summarized in the following table (*in thousands*):

| | Fiscal Year Ended | |
|-------------------|--------------------------|---------------------|
| | May 29, 2021 | May 30, 2020 |
| Net Assets | | |
| North America | \$ 77,698 | \$ 81,533 |
| Asia/Pacific | 10,547 | 10,370 |
| Europe | 31,289 | 24,973 |
| Latin America | 2,026 | 1,784 |
| Total | <u>\$ 121,560</u> | <u>\$ 118,660</u> |

The Company had long-lived assets of \$19.3 million as of May 29, 2021 and \$20.2 million as of May 30, 2020. The long-lived assets, which include our fixed assets and intangibles, were primarily in the US. There were approximately \$0.4 million of long-lived assets that belong to our foreign affiliates as of May 29, 2021 and \$0.6 million as of May 30, 2020.

The Company had depreciation and amortization expense of \$3.4 million, \$3.4 million and \$3.2 million for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The depreciation and amortization, which includes our fixed assets and intangibles, were primarily in the US. Depreciation and amortization expense that belong to our foreign affiliates was approximately \$0.3 million for fiscal 2021, \$0.3 million for fiscal 2020 and \$0.2 million for fiscal 2019, respectively.

10. RISKS AND UNCERTAINTIES

Litigation

On October 15, 2018, Varex Imaging Corporation (“Varex”) filed its original Complaint (Case No. 1:18-cv-06911) against Richardson Electronics Ltd. (“Richardson”) in the Northern District of Illinois, which was subsequently amended on November 27, 2018. Varex alleged counts of infringement of U.S. Patent Nos. 6,456,692 and 6,519,317. Subsequently, on October 24, 2018, Varex filed a motion for preliminary injunction to stop the sale of Richardson’s ALTA750™ product. Richardson filed an opposition to the preliminary injunction. In January 2019, the Court took evidence on the preliminary injunction issue. On September 30, 2019, the Court denied Varex’s Motion for Preliminary Injunction. On August 6, 2020, Varex amended its Complaint to add claims of trade secret misappropriation and Richardson moved to dismiss that Amended Complaint on September 9, 2020. On April 2, 2021, as part of an overall settlement where Richardson did not admit liability but wanted to move forward, Richardson agreed to pay Varex \$1.6 million to settle this matter, which was recorded in selling, general and administrative expenses within the Consolidated Statements of Comprehensive Income (Loss).

Company Response to COVID-19

In March 2020, the World Health Organization classified the outbreak of COVID-19 as a pandemic. Thereafter, most U.S. states imposed “shelter in place” directives on their populations to stem the spread of COVID-19 and similar restrictive measures were taken by governments across the world.

The shelter in place directives generally required the closure of businesses that did not provide essential functions. The Company was considered a critical supplier of products to healthcare and critical infrastructure businesses. Further, several of our largest customers mandated that we continue to supply parts so as not to disrupt the supply chain and their ability to serve critical industries. As such, the Company qualified as an “Essential Business” and the Company continued our manufacturing and distribution operations throughout 2021. Our top priority was ensuring the health and safety of our employees and, accordingly, we undertook measures such as limiting the number of people in any one of our facilities by requiring only employees who could not perform their work remotely to physically work in a Company US-based facility. The Company advised all other employees that could perform their job functions remotely to do so. As such, the Company’s operations remained operational.

The impact of the COVID-19 outbreak and its effects continue to evolve. As such, the full magnitude that the pandemic, and the steps taken to prevent and/or mitigate its spread, will have on the Company’s financial condition, liquidity and future results of operations is 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 worldwide containment and vaccination efforts and the impact of these and other factors on our employees, customers and suppliers. Our ability to meet customer demands for products may be impaired or, similarly, our customers may experience adverse business consequences due to 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 was a decline in PMT sales during the first three months of fiscal 2021, a decline in Healthcare sales during the first six months of fiscal 2021 and a decline in Canvys sales during the first nine months of fiscal 2021. The majority of these declines in sales were related to the COVID-19 global pandemic. While we had some COVID-19 related component delays impacting new product development schedules, we did not experience a major interruption in our 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 curb its spread, the Company is not presently able to fully estimate the effects of COVID-19 on its results of operations, financial condition or liquidity for fiscal year 2022.

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 May 29, 2021, the Company deferred \$0.9 million of 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.

11. FAIR VALUE MEASUREMENTS

Investments measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of May 29, 2021 and May 30, 2020 were as follows (*in thousands*):

| | Level 1 | Level 2 | Level 3 |
|---------------------|------------------|-------------|-------------|
| May 29, 2021 | | | |
| Time deposits/CDs | \$ — | \$ — | \$ — |
| Total | \$ — | \$ — | \$ — |
| May 30, 2020 | | | |
| Time deposits/CDs | \$ 16,000 | \$ — | \$ — |
| Total | \$ 16,000 | \$ — | \$ — |

12. VALUATION AND QUALIFYING ACCOUNTS

The following table presents the valuation and qualifying account activity for fiscal years ended May 29, 2021, May 30, 2020 and June 1, 2019, (*in thousands*):

| Description | Balance at beginning of period | Charged to expense | Deductions | Balance at end of period |
|---------------------------------|--------------------------------------|-----------------------|-------------|--------------------------------|
| Year ended May 29, 2021 | | | | |
| Allowance for doubtful accounts | \$ 334 | \$ 149 (1) | \$ (281)(2) | \$ 202 |
| Inventory provisions | 5,393 | 1,041 (3) | (568)(4) | 5,866 |
| Year ended May 30, 2020 | | | | |
| Allowance for doubtful accounts | \$ 339 | \$ 349 (1) | \$ (354)(2) | \$ 334 |
| Inventory provisions | 4,568 | 1,013 (3) | (188)(4) | 5,393 |
| Year ended June 1, 2019 | | | | |
| Allowance for doubtful accounts | \$ 309 | \$ 402 (1) | \$ (372)(2) | \$ 339 |
| Inventory provisions | 4,027 | 1,076 (3) | (535)(4) | 4,568 |

Notes:

- (1) Charges to bad debt expense.
- (2) Uncollectible amounts written off, net of recoveries and foreign currency translation.
- (3) Charges to cost of sales. Included in fiscal 2021 were inventory write-downs of \$0.6 million for PMT, \$0.1 million for Canvys and \$0.4 million for Healthcare.
- (4) Inventory disposed of or sold, net of foreign currency translation.

13. **SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)** (in thousands, except per share amounts):

| Description | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| <u>Fiscal 2021</u> | | | | |
| Net sales | \$ 38,812 | \$ 42,418 | \$ 45,235 | \$ 50,472 |
| Gross profit | 12,359 | 14,343 | 15,766 | 16,357 |
| Net (loss) income | (1,147) | 689 | 228 | 1,885 |
| Net (loss) income per share: | | | | |
| Common stock - basic | \$ (0.09) | \$ 0.05 | \$ 0.02 | \$ 0.14 |
| Class B common stock - basic | \$ (0.08) | \$ 0.05 | \$ 0.02 | \$ 0.13 |
| Common stock - diluted | \$ (0.09) | \$ 0.05 | \$ 0.02 | \$ 0.14 |
| Class B common stock - diluted | \$ (0.08) | \$ 0.05 | \$ 0.02 | \$ 0.13 |
| <u>Fiscal 2020</u> | | | | |
| Net sales | \$ 40,653 | \$ 39,634 | \$ 38,249 | \$ 37,362 |
| Gross profit | 12,951 | 12,680 | 12,670 | 11,372 |
| Net income (loss) | 157 | (622) | (93) | (1,280) |
| Net income (loss) per share: | | | | |
| Common stock - basic | \$ 0.01 | \$ (0.05) | \$ (0.01) | \$ (0.10) |
| Class B common stock - basic | \$ 0.01 | \$ (0.04) | \$ (0.01) | \$ (0.09) |
| Common stock - diluted | \$ 0.01 | \$ (0.05) | \$ (0.01) | \$ (0.10) |
| Class B common stock - diluted | \$ 0.01 | \$ (0.04) | \$ (0.01) | \$ (0.09) |

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Richardson Electronics, Ltd.
LaFox, Illinois

Opinion on Internal Control over Financial Reporting

We have audited Richardson Electronic Ltd.'s (the "Company's") internal control over financial reporting as of May 29, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 29, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of May 29, 2021 and May 30, 2020, the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended May 29, 2021, and the related notes and our report dated August 2, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Chicago, Illinois
August 2, 2021

ITEM 9A. 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 May 29, 2021.

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 May 29, 2021 at a reasonable assurance level.

(b) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency in internal control over financial reporting that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Under the supervision of the Chief Executive Officer and Chief Financial Officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of May 29, 2021, based on the framework in the *Internal Control-Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment, management has concluded that the Company's internal control over financial reporting was effective as of May 29, 2021.

Management's assessment of the effectiveness of our internal control over financial reporting as of May 29, 2021 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information concerning directors and executive officers of the registrant will be contained in our Proxy Statement to be issued in connection with our Annual Meeting of Stockholders scheduled to be held on October 5, 2021 and is incorporated herein by reference.

ITEM 11. Executive Compensation

Information concerning executive compensation will be contained in our Proxy Statement to be issued in connection with our Annual Meeting of Stockholders scheduled to be held on October 5, 2021 and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management will be contained in our Proxy Statement to be issued in connection with our Annual Meeting of Stockholders scheduled to be held on October 5, 2021 and is incorporated herein by reference.

Equity Compensation Plan Information

The following table sets forth information as of May 29, 2021, with respect to compensation plans under which equity securities were authorized for issuance:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Per Share Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column) |
|--|---|---|---|
| Equity Compensation Plans Approved by Security Holders | 1,431,615 | \$ 8.00 | 1,557,754 |
| Equity Compensation Plans Not Approved by Security Holders | 23,564 (1) | \$ 12.95 (1) | — |
| Total | <u>1,455,179</u> | \$ 8.08 | <u>1,557,754</u> |

(1) Options issued in 1987 pursuant to an employment contract with a former officer and director of Richardson Electronics, Ltd.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

Information concerning certain relationships and related transactions will be contained in our Proxy Statement to be issued in connection with our Annual Meeting of Stockholders scheduled to be held on October 5, 2021 and is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

Information concerning accountant fees and services will be contained in our Proxy Statement to be issued in connection with our Annual Meeting of Stockholders scheduled to be held on October 5, 2021 and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

- (a) Exhibit

See Exhibit Index.

- (b) Financial Statements and Financial Statement Schedules.

Our consolidated financial statements being filed as part of this Form 10-K are filed on Item 8 of this Form 10-K. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) *List of Documents Filed as a Part of This Report:*

(1) *Index to Consolidated Financial Statements:*

Consolidated Balance Sheets as of May 29, 2021 and May 30, 2020.

Consolidated Statements of Comprehensive Income (Loss) for each of the three years ended May 29, 2021, May 30, 2020 and June 1, 2019.

Consolidated Statements of Cash Flows for each of the three years ended May 29, 2021, May 30, 2020 and June 1, 2019.

Consolidated Statements of Stockholders' Equity for each of the three years ended May 29, 2021, May 30, 2020 and June 1, 2019.

Notes to Consolidated Financial Statements.

Report of BDO USA, LLP, Independent Registered Public Accounting Firm.

(2) *Index to Financial Statement Schedules:*

All schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

ITEM 16. Form 10-K Summary

None

EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 2(a) | <u>Purchase Agreement between the Company and International Medical Equipment & Services, Inc. dated June 15, 2015 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2015).</u> |
| 2(b) | <u>Acquisition Agreement, dated October 1, 2010, among Richardson Electronics, Ltd., certain subsidiaries of Richardson Electronics, Ltd. and Arrow Electronics, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 1, 2010).</u> |
| 2(c) | <u>Amendment No. 1 to Acquisition Agreement, dated February 28, 2011, between Richardson Electronics, Ltd., and Arrow Electronics, Inc. (incorporated by reference to Exhibit 10(q)(i) to the Company's Annual Report on Form 10-K for the fiscal year ended May 28, 2011).</u> |
| 3(a) | <u>Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Annex III of the Proxy Statement filed August 22, 2014).</u> |
| 3(b) | <u>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 12, 2017).</u> |
| 4* | <u>Description of the Company's Securities.</u> |
| 10(a) † | <u>Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan (incorporated by reference to Annex A to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on August 23, 2011).</u> |
| 10(a)(i) † | <u>Amendment to the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan (incorporated by reference to Annex II to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on August 22, 2014).</u> |
| 10(a)(ii) † | <u>Amendment Two to the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan (incorporated by reference to Annex I to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on August 24, 2018).</u> |
| 10(b) † | <u>Amended and Restated Edward J. Richardson Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A, filed with the SEC on August 30, 2012).</u> |
| 10(c) † | <u>Richardson Electronics, Ltd. 2006 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit A to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on September 12, 2005).</u> |
| 10(d) † | <u>Employment, Nondisclosure and Non-Compete Agreement, dated June 1, 2004, by and between the Company and Wendy Diddell (incorporated by reference to Exhibit 10.47 to the Company's Amendment No. 4 to the Registration Statement on Form S-1, Registration No. 333-113568, filed June 14, 2004).</u> |
| 10(d)(i) † | <u>First Amendment to Employment, Nondisclosure and Non-Compete Agreement, dated May 31, 2007, by and between the Company and Wendy Diddell (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2007).</u> |
| 10(e) † | <u>Employment, Nondisclosure and Non-Compete Agreement dated June 26, 2014, by and between the Company and Gregory J. Peloquin (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on June 27, 2014).</u> |
| 10(f) † | <u>Form of Non-Qualified Stock Option Agreement issued under the Richardson Electronics, Ltd. Employees' 2001 Incentive Compensation Plan (incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2008).</u> |
| 10(g) † | <u>Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2015).</u> |

- 10(g)(i) † [Amendment to the Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015 \(incorporated by reference to Exhibit 10\(u\) to the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018\).](#)
- 10(g)(ii) † [Amendment, dated December 14, 2018, to the Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015 \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the second quarter of fiscal year ended June 1, 2019\).](#)
- 10(h) † [Employment, Nondisclosure and Non-Compete Agreement between the Company and Robert J. Ben dated as of August 4, 2015 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 7, 2015\).](#)
- 10(i) † [Form of Restricted Stock Award Agreement Pursuant to the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan \(incorporated by reference to Exhibit 10\(r\) to the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018\).](#)
- 10(j) † [Form of Nonqualified Stock Option Award for Employees Pursuant to the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan \(incorporated by reference to Exhibit 10\(s\) to the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018\).](#)
- 10(k) † [Form of Nonqualified Stock Option Award for Consultants Pursuant to the Richardson Electronics, Ltd. 2011 Long-Term Incentive Plan \(incorporated by reference to Exhibit 10\(t\) to the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2018\).](#)
- 10(l) † [Disclosure of departure of Patrick Fitzgerald and change of responsibility of Wendy Diddell dated March 13, 2019 \(incorporated by reference to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 14, 2019\).](#)
- 10.1 † [Employment, Nondisclosure and Non-Compete Agreement between the Company and Jens Ruppert dated June 25, 2015 \(incorporated by reference to the Company's Current Report on Form 10-Q, filed with the Securities and Exchange Commission on October 10, 2019\).](#)
- 10.2 †* [Amendment, dated May 11, 2021, to the Employment, Nondisclosure and Non-Compete Agreement between the Company and Lee A. McIntyre III dated June 15, 2015.](#)
- 10.3 † [Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan \(incorporated by reference to Annex A of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on August 24, 2020\).](#)
- 10.4 †* [Form of Restrictive Stock Award Agreement Pursuant to the Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan.](#)
- 10.5 †* [Form of Nonqualified Stock Option Award for Employees Pursuant to the Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan.](#)
- 14 [Corporate Code of Conduct \(incorporated by reference to and Form 8-K filed on June 4, 2012\).](#)
- 21* [Subsidiaries of the Company.](#)
- 23.1* [Consent of Independent Registered Public Accounting Firm - BDO USA, LLP.](#)
- 31.1* [Certification of Edward J. Richardson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed pursuant to Part I\).](#)
- 31.2* [Certification of Robert J. Ben pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed pursuant to Part I\).](#)
- 32* [Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed pursuant to Part I\).](#)

101* The following financial information from our Annual Report on Form 10-K for the fourth quarter and fiscal year ended May 29, 2021, filed with the SEC on August 2, 2021, formatted in Inline Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statement of Stockholder's Equity and (v) Notes to Consolidated Financial Statements.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Executive Compensation Plan or Agreement

* Filed herewith

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.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| By: <u>/s/ Edward J. Richardson</u> Edward J. Richardson | Chairman of the Board, Chief Executive Officer (Principal Executive Officer), President and Director | August 2, 2021 |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/ Edward J. Richardson</u> Edward J. Richardson | Chairman of the Board, Chief Executive Officer (Principal Executive Officer), President and Director | August 2, 2021 |
| <u>/s/ Robert J. Ben</u> Robert J. Ben | Chief Financial Officer and Chief Accounting Officer (Principal Financial and Accounting Officer) | August 2, 2021 |
| <u>/s/ Wendy S. Diddell</u> Wendy S. Diddell | Director | August 2, 2021 |
| <u>/s/ Paul J. Plante</u> Paul J. Plante | Director | August 2, 2021 |
| <u>/s/ Jacques Belin</u> Jacques Belin | Director | August 2, 2021 |
| <u>/s/ James Benham</u> James Benham | Director | August 2, 2021 |
| <u>/s/ Kenneth Halverson</u> Kenneth Halverson | Director | August 2, 2021 |
| <u>/s/ Robert Kluge</u> Robert Kluge | Director | August 2, 2021 |

DESCRIPTION OF THE COMPANY'S SECURITIES

Description of Capital Stock

As of June 1, 2021, Richardson Electronics, Ltd. (the "Company," "we," "us," and "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock (the "Common Stock").

The following description of our capital stock is a summary of the material terms and provisions that apply to our capital stock. The summary does not purport to be complete. The summary is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") and our Amended and Restated By-Laws ("By-Laws"), which are filed as exhibits to our Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to carefully review our Certificate of Incorporation and our Bylaws for additional information.

As of June 1, 2021, there were outstanding 11,159,560 shares of Common Stock and 2,096,919 shares of Class B common stock (the "Class B Stock").

Authorized Capital Stock

Our Certificate of Incorporation authorizes the issuance of up to 20,000,000 shares, comprised of 17,000,000 shares of Common Stock, par value \$.05 per share and 3,000,000 shares of Class B Stock, par value \$.05 per share.

Common Stock

Voting Rights

The holders of our Common Stock are entitled to one vote for each share they own and vote together with holders of Class B Stock and any preferred stock on all matters voted on by our stockholders (except to the extent required by law or provided by the Certificate of Incorporation).

The Common Stock does not have cumulative voting rights.

Dividends

The holders of the Common Stock shall be entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by the Board of Directors, provided, however, that: (a) no cash dividend shall be declared or paid on the Common Stock unless a cash dividend equal to 90% of the cash dividend on the Common Stock is simultaneously declared and paid on the Class B Stock; (b) other than cash dividends under (a) above, no other distribution of assets, property, rights to subscribe or evidence of indebtedness shall be declared or paid on the Common Stock unless a distribution in like kind and equal per share amount is simultaneously declared and paid on the Class B Stock; and (c) stock dividends declared on the

Common Stock shall be payable solely in shares of Common Stock. No stock dividend shall be declared or paid on the Common Stock unless a stock dividend payable in shares of Class B Stock, proportionately on a per share basis, is simultaneously declared and paid on the Class B Stock.

Other Provisions

All of the outstanding shares of Common Stock are fully paid and non-assessable. Holders of Common Stock have no preemptive rights to purchase or subscribe for any stock or other securities and there are no conversion rights or redemption or sinking fund provisions with respect to our Common Stock.

Class B Stock

Voting Rights

The holders of our Class B Stock are entitled to ten votes for each share they own and vote together with holders of Common Stock and preferred stock on all matters voted on by our stockholders (except to the extent required by law or provided by the Certificate of Incorporation).

The Class B Stock does not have cumulative voting rights.

Dividends

The holders of the Class B Stock shall be entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by the Board, provided, however, that: (a) no cash dividend shall be declared or paid on the Class B Stock unless a cash dividend is simultaneously declared and paid on the Common Stock in an amount so that the cash dividend on the Class B Stock is 90% of the cash dividend on the Common Stock; (b) other than cash dividends under (a) above, no other distribution of assets, property, rights to subscribe or evidence of indebtedness shall be declared or paid on the Class B Stock unless a cash dividend or such other distribution in like kind and equal per share amount is simultaneously declared and paid on the Common Stock; and (c) stock dividends declared on the Class B Stock shall be payable solely in shares of Class B Stock. No stock dividend shall be declared or paid on the Class B Stock unless a stock dividend payable in shares of Common Stock, proportionately on a per share basis, is simultaneously declared and paid on the Common Stock.

Restrictions on Transfer

Shares of Class B Stock are not freely transferable. A holder of shares of Class B Stock may transfer those shares (whether by sale, assignment, gift, bequest, appointment or otherwise) only to a "Permitted Transferee" (as defined below). A transfer of Class B Stock to any person or entity other than a "Permitted Transferee" will result in the automatic conversion of those shares of Class B Stock into shares of Common Stock on a share-for-share basis.

The "Permitted Transferees" of an individual holder of shares of Class B Stock generally include record holders of shares as described below:

- (i) that stockholder's spouse;
- (ii) any lineal descendant of a grandparent of that stockholder and any spouse of that lineal descendant (we refer to these descendants and their spouses, together with the stockholders in question and their spouses, as the "Class B stockholder's family members");
- (iii) a trustee of a trust for the sole benefit of that stockholder, that Class B stockholder's family members and certain charitable organizations;
- (iv) certain charitable organizations established by that stockholder or that Class B stockholder's family members or the Company;
- (v) a partnership or corporation all of the beneficial ownership of which is owned (and continues to be owned) by that stockholder and/or certain other Permitted Transferees;
- (vi) the executor or administrator of the estate of that stockholder; and
- (vii) an employee stock ownership plan of ours.

Shares of Class B Stock may only be registered in the name of the beneficial owner thereof and not in a "street" or "nominee" name. The "beneficial owner" of shares of Class B Stock is defined as the person or persons who, or the entity or entities which, possess the power to direct the voting or the disposition of such shares.

Conversion

Shares of Class B Stock are convertible into Common Stock on a share-for-share basis at all times at the option of the holder without charge for any stamp or similar tax in respect of such issuance. In general, the conversion will be effective as of the date the Class B Stock is surrendered to us for conversion.

Any transfer, pledge or other disposition of shares of Class B Stock other than to a Permitted Transferee will result in an automatic conversion to Common Stock, on a share-for-share basis, unless such pledge is pursuant to a bona fide pledge of such shares as collateral security for indebtedness due to the pledgee, provided that such shares shall not be transferred to or registered in the name of the pledgee and shall remain subject to the restrictions of transfer described above.

If at any time the number of issued and outstanding shares of Class B Stock falls below 10% of the aggregate number of issued and outstanding shares of Common Stock, Class B Stock and preferred stock, all the outstanding shares of Class B Stock immediately and automatically will be converted into shares of Common Stock. In the event of such a conversion, certificates formerly representing outstanding shares of Class B Stock will thereafter be deemed to represent a like number of shares of Common Stock.

All shares of Class B Stock received by the Company upon conversion thereof into Common Stock will be returned to the status of authorized but unissued shares of Class B Stock.

Other Provisions

All of the outstanding shares of Class B Stock are fully paid and non-assessable. Holders of Class B Stock have no preemptive rights to purchase or subscribe for any stock or other securities and there are no redemption or sinking fund provisions with respect to our Class B Stock. The Class B Stock is subject to transfer and conversion restrictions described above.

Certain Provisions of Delaware Law, Our Certificate of Incorporation and By-Laws

Class B Stock

The holders of our Class B Stock are entitled to 10 votes for each share they own. As a result, the holders of Class B Stock have the ability to elect our board of directors. So long as the holders of Class B Stock constitute more than 50% of our voting power, they have the ability to control any possible merger, consolidation or sale of assets involving us.

Delaware Anti-Takeover Law

We are subject to Section 203 (“Section 203”) of the Delaware General Corporation Law. Under this provision, we may not engage in any “business combination” with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless:

- (i) prior to that date our Board of Directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- (ii) upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock outstanding at the time the transaction began; or
- (iii) on or following that date, the business combination is approved by our Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include, subject to limited exceptions:

- (i) any merger or consolidation involving the corporation and the interested stockholder;
- (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- (iii) any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

- (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an “interested stockholder” as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

The restrictions of Section 203 of the Delaware General Corporation Law do not apply to corporations that have elected, in the manner provided therein, not to be subject to Section 203 of the Delaware General Corporation Law. The Company has not made such an election. Accordingly, the Company would be subject to Section 203 in the event of a business combination.

Transfer Agent

EQ Shareholder Services is the Transfer Agent and Registrar for our capital stock.



Corporate Headquarters
40W267 Keslinger Road
PO Box 393
LaFox, IL 60147-0393 USA

May 11, 2021

Mr. Trey McIntyre III
4134 Birkshire Heights
Fort Mill, SC 29708

Re: Amendment 4 to the Employment, Nondisclosure and Non-Compete Agreement
Dated June 15, 2015

Dear Trey:

Effective May 30, 2021, RICHARDSON ELECTRONICS, Ltd. ("Employer") and Trey McIntyre ("Employee") agree to the following changes to the Employment, Nondisclosure and Non-Compete Agreement ("Agreement") between Employer and Employee dated June 15, 2015, inclusive of Amendment 1 dated April 10, 2018, Amendment 2 dated December 14, 2018, and Amendment 3 dated June 4, 2020:

- The annual rate of pay shall be \$37,500 effective May 30, 2021 (the start of FY22). For clarity, the benefits and car allowance shall continue without change.
- This shall be in effect for FY 22; the next review will be May 2022.
- All terms not set forth herein shall remain the same as the Agreement, Amendment 1, Amendment 2 and Amendment 3.

Please review the terms and conditions given above, sign this Amendment 4, keep one copy for your records, and return the other copy to us. Please do not hesitate to contact me should you have any questions or concerns.

Sincerely yours,

Sincerely yours,

A handwritten signature in blue ink that reads "Wendy Diddell".

Wendy Diddell
Chief Operating Officer

I accept the terms and conditions given above.

Signature: A handwritten signature in black ink that reads "Trey McIntyre".

Date of Signature: 5/18/21

**RESTRICTED STOCK AWARD
PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

Agreement Number: _____

THIS RESTRICTED STOCK AWARD is made as of the Grant Date, by Richardson Electronics, Ltd. (the "Company") to _____ (the "Grantee"). Upon and subject to the terms and conditions described herein, the Company hereby awards as of the Grant Date to Grantee a grant of stock (the "Stock Award"), as described below.

- A. Grant Date:
- B. Type of Award: Stock Award
- C. Plan under which Stock Award is granted: Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan.
- D. Stock Award: _____ shares of the Common Stock, \$.05 par value, of the Company (the "Shares"), upon and subject to the terms and conditions set forth herein and in the attached Terms and Conditions, including, without limitation, the Vesting Schedule attached as Exhibit 1 hereto.
- E. The Grantee hereby represents and warrants as follows:
 - (i) Grantee is acquiring the Restricted Stock for investment purposes only, and not with a view to distribution thereof;
 - (ii) Grantee is aware that the Restricted Stock may not be registered under the federal or any state securities laws and that, in such case and in addition to the other restrictions on the Restricted Stock, the Shares may not be transferred unless an exemption from registration is available;
 - (iii) Grantee has had an opportunity to review a copy of the Plan and any Annual Reports, Quarterly Reports, Current Reports, Proxy Statements and other communications distributed to stockholders of the Company;
 - (ii) that any and all questions of the Grantee pertaining to the Plan and to the Shares have been answered by the Company to Grantee's satisfaction;
 - (iii) Grantee understands that the Plan is incorporated herein by reference and is made a part of this Agreement as if fully set forth herein; and
 - (iv) that the Plan shall control in the event that there is any conflict between the Plan and this Agreement, and on such matters as are not contained in this Agreement.
- F. Vesting of Stock Awards:
 - (i) The Shares shall vest and be non-forfeitable in accordance with the Vesting Schedule.
 - (ii) Notwithstanding the Vesting Schedule, in the event that the Grantee's employment with the Company terminates as a result of his (a) death, (b) Disability, or (c) retirement at or after age 65, the Stock Award and all Shares still subject to the Stock Award and unvested pursuant to the Vesting Schedule shall immediately vest. Further, upon termination of Grantee's employment with the Company in any other event, without the Company giving notice to the

Grantee that the Stock Award and all Shares still subject to the Stock Award and unvested pursuant to the Vesting Schedule are vested, the Grantee's Stock Award with respect to all unvested Shares shall be forfeited and the Grantee shall have no rights with respect to such Stock Award or Shares. For purposes of this Agreement a transfer of employment between the Company and any Affiliate or among Affiliates, shall not be deemed a termination of employment.

IN WITNESS WHEREOF, the parties have executed and sealed this Award as of the Grant Date set forth above.

GRANTEE

RICHARDSON ELECTRONICS, LTD.



Signature

By: Edward J. Richardson

Title: Chairman of the Board/CEO

**TERMS AND CONDITIONS TO THE
RESTRICTED STOCK AWARD
PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

1. Withholding. Grantee shall make appropriate arrangements with the Company for satisfaction of any U.S. federal, state or local income tax or foreign tax withholding requirements in connection with the Stock Award and the vesting of the Shares. If the Grantee shall fail to make appropriate arrangements for the satisfaction of the applicable tax withholding requirements, then the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to the Grantee any U.S. federal, state or local taxes or foreign taxes of any kind required by law to be withheld with respect to such Shares. Payment of the tax withholding by a Grantee who is an officer, director or other “insider” subject to Section 16(b) of the Exchange Act by tendering Company stock or in the form of Share withholding is subject to pre-approval by the Compensation Committee, in its sole discretion, in a manner that complies with the specificity requirements of Rule 16b-3 under the Exchange Act.

2. Rights as Stockholder. During the term of this Agreement, the Grantee shall be entitled to receive all dividends paid on the Shares, to vote the Shares, and to enjoy all other stockholder rights, except that the Grantee shall neither (i) be entitled to the delivery of any certificate evidencing Shares and/or Other Securities except as provided below nor (ii) be able to sell, assign, transfer, pledge, hypothecate or otherwise dispose of the Shares and/or Other Securities until such time as the Shares have vested and the Grantee has received a certificate evidencing such shares.

3. Stock Awards are Non-Transferable. This Stock Award may not be assigned, transferred, pledged, or hypothecated in any way whether by operation of law or otherwise (except for the laws of descent and distribution). The Shares may be received only by the Grantee (or in the event of the Grantee's incompetency by the Grantee's legal representative) during the Grantee's lifetime. After the Grantee's death, any Shares which have not been previously delivered to the Grantee shall be distributed to his or her designated beneficiary or, in the absence of such designation, to the Grantee's legal representative.

4. Changes in Capitalization.

(a) The number of Shares shall be proportionately adjusted for nonreciprocal transactions between the Company and the holders of capital stock of the Company that causes the per share value of the shares of Common Stock underlying the Stock Award to change, such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend (each, an “Equity Restructuring”).

(b) In the event of a merger, consolidation, extraordinary dividend, sale of substantially all of the Company's assets or other material change in the capital structure of the Company, or a tender offer for shares of Common Stock, or a Change in Control, that in each case is not an “Equity Restructuring,” the Committee shall take such action to make such adjustments in the Shares or the terms of the Stock Award as the Committee, in its sole discretion, determines in good faith is necessary or appropriate, including, without limitation, adjusting the number and class of securities subject to the Award, accelerating the termination of the Vesting Schedule or terminating the Award in consideration of a cash payment to the Grantee in an amount equal to the then Fair Market Value of the Shares. Any determination made by the Committee pursuant to this Section 4(b) will be final and binding on the Grantee. Any action taken by the Committee need not treat all Grantees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of

debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

5. Book Entry Form; Certificates.

(a) At the sole discretion of the Company, the Shares will be issued in either (i) uncertificated form, with the Shares recorded in the name of the Grantee in the books and records of the Company's transfer agent with appropriate notations regarding the restrictions on transfer imposed pursuant to this Agreement and upon vesting, the Company shall remove such notations on any such vested shares of Common Stock; or (ii) certificated form pursuant to the terms of Sections 5.1(b), (c) and (d) hereof.

(b) Certificates evidencing the Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth in this Award and in the Plan. Immediately upon receipt of the certificate or certificates representing the Shares, the Grantee hereby agrees to deposit such certificates, together with stock powers and other instruments of transfer, appropriately endorsed in blank, with the Company or an escrow agent designated by the Company under an escrow agreement in such form as shall be determined by the Compensation Committee. If such certificates are deposited with the Company, the Company may transfer such certificates to an escrow agent at any time in its sole discretion.

(c) At such time as any number of the Shares are no longer subject to the restrictions, terms, and conditions of this Agreement (the "Unrestricted Shares"), the Compensation Committee shall cause a new certificate to be delivered to the Grantee, without the legend set forth above, for the Unrestricted Shares. The Shares remaining subject to this Agreement shall either be canceled or, if appropriate, shall continue to be held by the Company or held in escrow subject to the restrictions, terms, and conditions of this Agreement.

(d) In the event that a Grantee becomes entitled to receive any new, additional, or different securities by virtue of a stock dividend, stock split, recapitalization, reorganization, merger, consolidation, split-up, or any similar change affecting the Shares ("Other Securities"), such Other Securities shall be subject to the restrictions, terms and conditions of this Agreement as if they were Shares, including, without limit, deposit with the Company or in escrow.

6. Governing Laws. This Stock Award shall be construed, administered and enforced according to the laws of the State of Illinois. Notwithstanding any other provisions of this Stock Award, the issuance or delivery of any Shares (whether subject to restrictions or unrestricted) may be postponed for such period as may be required to comply with applicable requirements of any national securities exchange or any requirements under any law or regulation applicable to the issuance or delivery of such shares.

7. Successors. This Stock Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and permitted assigns of the parties.

8. Notice. Except as otherwise specified herein, all notices and other communications under this Stock Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

9. Severability. In the event that any one or more of the provisions or portion thereof contained in this Stock Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Stock Award, and this Stock Award shall be

construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

10. Entire Agreement. Subject to the terms and conditions of the Plan, this Stock Award expresses the entire understanding and agreement of the parties. This Stock Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

11. Violation. Except as expressly provided in this Stock Award of the Plan, any transfer, pledge, sale, assignment, or hypothecation of the Shares or any portion thereof shall be a violation of the terms of this Stock Award and shall be void and without effect.

12. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Stock Award.

13. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Stock Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

14. No Right to Continued Service. Neither the establishment of the Plan nor the award of Shares hereunder shall be construed as giving the Grantee the right to continued employment or other service relationship with the Company.

15. Definitions. As used in this Award “Change in Control” means any one of the following events which may occur after the Grant Date:

(1) the acquisition by any person (within the meaning of Section 13(d) of the Exchange Act) or persons acting in concert of equity of the Company if, after the transaction, the acquiring person (or persons) owns equity securities of the Company with more than fifty percent (50%) of the voting power of the equity securities of the Company, unless the acquisition is by a person or persons that is owned directly or indirectly by holders of outstanding equity of the Company who owned, directly or indirectly, equity securities of the Company with more than fifty percent (50%) of the voting power of the equity securities of the Company prior to such acquisition;

(2) within any twelve-month period (beginning on or after the Grant Date) the persons who were voting members of the governing body of the Company immediately before the beginning of such twelve-month period (the “Incumbent Members”) shall cease to constitute at least a majority of such governing body; provided that any member who was not a member as of the beginning of such twelve-month period shall be deemed to be an Incumbent Member if that member were elected to such governing body by, or on the recommendation of or with the approval of, at least three fourths (3/4) of the members who then qualified as Incumbent Members; and provided further that no member whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members shall be deemed to be an Incumbent Member;

(3) a reorganization, merger, share exchange combination, or consolidation, with respect to which persons who were the holders of the outstanding equity of the Company immediately prior to such reorganization, merger, share exchange combination, or consolidation do not, immediately thereafter, own directly or indirectly equity securities of the Company with more than fifty percent (50%) of the combined voting power of the reorganized, merged, combined or consolidated entity; or

(4) the sale, transfer or assignment of all or substantially all of the assets of the Company and its Affiliates to any third party other than to an Affiliate of the Company.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred with respect to the Grantee by reason of any actions or events in which the Grantee participates in a capacity other than in the Grantee's capacity as an employee or director of the Company or as a shareholder of the Company solely exercising the Grantee's voting or tendering rights.

(c) Other capitalized terms that are not defined herein have the meaning set forth in the Plan, except where the context does not reasonably permit.

EXHIBIT 1
VESTING SCHEDULE

RESTRICTED STOCK AWARD
ISSUED PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN

The stock shall vest in the following amounts at the following times:

| <u>Number of Shares</u> | <u>Vesting Date</u> |
|-------------------------|---------------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

**RESTRICTED STOCK AWARD
ISSUED PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

RECEIPT

Restricted Stock Award Agreement No. _____
Dated: _____
For: _____ shares of common stock of Richardson Electronics, Ltd.
Issued to: _____

I, _____, received Restricted Stock Award Agreement No. _____, this _____ day
of _____, 20____.

Grantee

* * * * *

I, _____, surrendered Restricted Stock Award Agreement No. _____, this _____
day of _____, 20____.

Grantee

**RESTRICTED STOCK AWARD
ISSUED PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

BENEFICIARY DESIGNATION

Restricted Stock Award Agreement No. _____
Dated: _____
For: _____ shares of common stock of Richardson Electronics, Ltd.
Issued to: _____

I, _____, do hereby designate _____ as Beneficiary, with respect to
Restricted Stock Award Agreement No. _____, this _____ day of _____, 20____.

Grantee

**NONQUALIFIED STOCK OPTION AWARD
PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

Agreement Number: _____

THIS AWARD is made as of the Grant Date, by Richardson Electronics, Ltd. (the "Company") to _____ . Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference, the Company hereby awards as of the Grant Date to Optionee a nonqualified stock option (the "Option"), as described below, to purchase the Option Shares.

- A. Grant Date:
- B. Type of Option: Nonqualified Stock Option.
- C. Plan (under which Option is granted): Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan.
- D. Option Shares: All or any part of _____ shares of the Company's common stock (the "Common Stock"), subject to adjustment as provided in the attached Terms and Conditions.
- E. Exercise Price: \$ _____ per share, subject to adjustment as provided in the attached Terms and Conditions. The Exercise Price is, in the judgment of the Committee, not less than 100% of the Fair Market Value of a share of Common Stock on the Grant Date.
- F. Option Period: The Option may be exercised only during the Option Period which commences on the Grant Date and ends on the earliest of:
 - (i) the tenth (10th) anniversary of the Grant Date;
 - (ii) three (3) months following the date the Optionee ceases to be an employee, director, or contractor of the Company and all Affiliates for any reason other than death, Disability or Termination of Employment (or other termination of service) by the Company or any Affiliate with Cause; or
 - (iii) twelve (12) months following the date the Optionee ceases to be an employee, director, or contractor of the Company and all Affiliates due to death or Disability.

Notwithstanding the foregoing, the Option shall cease to be exercisable upon the earliest of:

- (i) the date the Optionee is notified by the Company or an Affiliate that the Optionee's employment or service will be terminated for Cause if the Optionee contemporaneously or thereafter ceases to be an employee, director, or contractor of the Company or an Affiliate due to Termination of Employment (or other termination of service) by the Company or any Affiliate with Cause; or
- (ii) the date the Optionee violates any non-solicitation or non-compete agreement with the Company or an Affiliate.

The Option may only be exercised as to the vested Option Shares determined pursuant to the Vesting Schedule. *Note that other restrictions to exercising the Option, as described in the attached Terms and Conditions, may apply.*

- G. Vesting Schedule: The Option shall become vested in accordance with the vesting schedule attached hereto as Exhibit 2. Notwithstanding any other provision hereof, any portion of the Option which is not vested at the time of Optionee's Termination of Employment (or other termination of service) with the Company shall be forfeited to the Company.

IN WITNESS WHEREOF, the parties have executed and sealed this Award as of the Grant Date set forth above.

OPTIONEE

RICHARDSON ELECTRONICS, LTD.



Signature

By: Edward J. Richardson

Title: Chairman of the Board/CEO

**TERMS AND CONDITIONS TO THE
NONQUALIFIED STOCK OPTION AWARD
PURSUANT TO THE RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

1. Exercise of Option. Subject to the provisions provided herein or in the Award made pursuant to the Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan:

(a) the Option may be exercised with respect to all or any portion of the vested Option Shares at any time during the Option Period by the delivery to the Company, at its principal place of business, of (i) a written notice of exercise in substantially the form attached hereto as Exhibit 1, which shall be actually delivered to the Company at least three business days prior to the date upon which Optionee desires to exercise all or any portion of the Option (unless such prior notice is waived by the Company) and (ii) payment to the Company of the Exercise Price multiplied by the number of shares being purchased (the "Purchase Price") in the manner provided in Subsection (b). Upon acceptance of such notice and receipt of payment in full of the Purchase Price and any tax withholding liability, to the extent applicable, the Company shall cause to be issued a certificate representing the Option Shares purchased.

(b) The Purchase Price shall be paid in full upon the exercise of an Option and no Option Shares shall be issued or delivered until full payment therefor has been made. Payment of the Purchase Price for all Option Shares purchased pursuant to the exercise of an Option shall be made in cash, certified check, or alternatively, as follows:

(i) by delivery to the Company of a number of shares of Common Stock owned by the Optionee prior to the date of the Option's exercise, having a Fair Market Value, as determined under the Plan, on the date of exercise either equal to the Purchase Price or in combination with cash to equal the Purchase Price; or

(ii) to the extent permitted by the Committee, by receipt of the Purchase Price in cash from a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System following delivery by the Optionee to the Committee of instructions in a form acceptable to the Committee regarding delivery to such broker, dealer or other creditor of that number of Option Shares with respect to which the Option is exercised.

2. Withholding. To the extent necessary, the Optionee must satisfy his or her federal, state, and local, if any, withholding taxes imposed by reason of the exercise of the Option either by paying to the Company the full amount of the withholding obligation in cash or cash equivalents, or, upon and following the Maturity Date: (i) by tendering shares of Common Stock owned by the Optionee having a Fair Market Value equal to the withholding obligation (a "Withholding Election"); (ii) by electing, irrevocably and in writing (also a "Withholding Election"), to have the smallest number of whole shares of Common Stock withheld by the Company which, when multiplied by the Fair Market Value of the Common Stock as of the date the Option is exercised, is sufficient to satisfy the amount of withholding tax; or (iii) by any combination of the above. Optionee may make a Withholding Election only if the following conditions are met:

(a) the Withholding Election is made on or prior to the date on which the amount of tax required to be withheld is determined (the "Tax Date") by executing and delivering to the Company a properly completed Notice of Withholding Election in the form provided by the Company; and

(b) any Withholding Election will be irrevocable; however, the Committee may, in its sole discretion, disapprove and give no effect to the Withholding Election.

3. Rights as Shareholder. Until the stock certificates reflecting the Option Shares accruing to the Optionee upon exercise of the Option are issued to the Optionee, the Optionee shall have no rights as a shareholder with respect to such Option Shares. The Company shall make no adjustment for any dividends or distributions or other rights on or with respect to Option Shares for which the record date is prior to the issuance of that stock certificate, except as the Plan or this Award otherwise provides.

4. Restriction on Transfer of Option and Option Shares. Except to the extent waived by the Committee, the Option evidenced hereby is nontransferable other than by will or the laws of descent and distribution governing the state in which the Optionee is domiciled at the time of the Optionee's death and shall be exercisable during the lifetime of the Optionee only by the Optionee (or in the event of his or her disability, by his or her legal representative) and after his or her death, only by legal representative of the Optionee's estate, or if no such legal representative is appointed within ninety (90) days of the Optionee's death, by the person(s) taking under the laws of descent and distribution governing the state in which the Optionee is domiciled at the time of the Optionee's death.

5. Changes in Capitalization.

(a) The number of Option Shares and the Exercise Price shall be proportionately adjusted for nonreciprocal transactions between the Company and the holders of capital stock of the Company that causes the per share value of the shares of Common Stock underlying the Option to change, such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend (each, an "Equity Restructuring").

(b) In the event of a merger, consolidation, extraordinary dividend, sale of substantially all of the Company's assets or other material change in the capital structure of the Company, or a tender offer for shares of Common Stock, or a Change in Control, that in each case is not an "Equity Restructuring," the Committee shall take such action to make such adjustments in the Option or the terms of this Award as the Committee, in its sole discretion, determines in good faith is necessary or appropriate, including, without limitation, adjusting the number and class of securities subject to the Option, with a corresponding adjustment in the Exercise Price, substituting a new option to replace the Option, accelerating the termination of the Option Period or terminating the Option in consideration of a cash payment to the Optionee in an amount equal to the excess of the then Fair Market Value of the Option Shares over the aggregate Exercise Price of the Option Shares. Any determination made by the Committee pursuant to this Section 5(b) will be final and binding on the Optionee. Any action taken by the Committee need not treat all optionees equally.

(c) The existence of the Plan and this Award shall not affect in any way the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its business or assets, or any other corporate act or proceeding.

6. Special Limitations on Exercise. Any exercise of the Option is subject to the condition that if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the shares covered by the Option upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the delivery of shares thereunder, the delivery of any or all shares pursuant to the Option may be withheld unless and until such listing, registration or qualification shall have been effected. The Optionee shall deliver to the Company, prior to the exercise of the Option, such information, representations and warranties as the Company may reasonably request in order for the Company to be able to satisfy itself that the Option Shares are being acquired in accordance with the terms of an applicable exemption from the securities registration requirements of applicable federal and state securities laws.

7. Legend on Stock Certificates. Certificates evidencing the Option Shares, to the extent appropriate at the time, shall have noted conspicuously on the certificates a legend intended to give all persons full notice of the existence of the conditions, restrictions, rights and obligations set forth in this Award and in the Plan.

8. Governing Laws. This Award shall be construed, administered and enforced according to the laws of the State of Illinois; provided, however, no option may be exercised except, in the reasonable judgment of the Board of Directors, in compliance with exemptions under applicable state securities laws of the state in which the Optionee resides, and/or any other applicable securities laws.

9. Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and permitted assigns of the parties.

10. Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties. This Award may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

13. Violation. Except as provided in Section 4, any transfer, pledge, sale, assignment, or hypothecation of the Option or any portion thereof shall be a violation of the terms of this Award and shall be void and without effect.

14. Headings. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award.

15. Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

16. No Right to Continued Service. Neither the establishment of the Plan nor the award of Option Shares hereunder shall be construed as giving the Optionee the right to continued employment or other service relationship with the Company.

17. Definitions. As used in this Award,

(a) “Cause” means “Cause” as defined in the employment or other services agreement between the Optionee and the Company or an Affiliate that is in effect at the date that an action constituting “Cause” occurs, or if no such definition or agreement exists, (i) willful and continued failure (other than such failure resulting from his or her incapacity during physical or mental illness) by the Optionee to substantially perform his or her duties with the Company or an Affiliate; (ii) willful misconduct by the Optionee; (iii) gross negligence by the Optionee causing material harm to the Company or an Affiliate; (iv) any act by the Optionee of fraud, misappropriation, dishonesty or

embezzlement; (v) commission by the Optionee of a felony or any other crime involving moral turpitude or dishonesty; or (vi) illegal drug use.

(b) “Change in Control” means any one of the following events which may occur after the Grant Date:

(1) the acquisition by any person (within the meaning of Section 13(d) of the Exchange Act) or persons acting in concert of equity of the Company if, after the transaction, the acquiring person (or persons) owns equity securities of the Company with more than fifty percent (50%) of the voting power of the equity securities of the Company, unless the acquisition is by a person or persons that is owned directly or indirectly by holders of outstanding equity of the Company who owned, directly or indirectly, equity securities of the Company with more than fifty percent (50%) of the voting power of the equity securities of the Company prior to such acquisition;

(2) within any twelve-month period (beginning on or after the Grant Date) the persons who were voting members of the governing body of the Company immediately before the beginning of such twelve-month period (the “Incumbent Members”) shall cease to constitute at least a majority of such governing body; provided that any member who was not a member as of the beginning of such twelve-month period shall be deemed to be an Incumbent Member if that member were elected to such governing body by, or on the recommendation of or with the approval of, at least three fourths (3/4) of the members who then qualified as Incumbent Members; and provided further that no member whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members shall be deemed to be an Incumbent Member;

(3) a reorganization, merger, share exchange combination, or consolidation, with respect to which persons who were the holders of the outstanding equity of the Company immediately prior to such reorganization, merger, share exchange combination, or consolidation do not, immediately thereafter, own directly or indirectly equity securities of the Company with more than fifty percent (50%) of the combined voting power of the reorganized, merged, combined or consolidated entity; or

(4) the sale, transfer or assignment of all or substantially all of the assets of the Company and its Affiliates to any third party other than to an Affiliate of the Company.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred with respect to the Optionee by reason of any actions or events in which the Optionee participates in a capacity other than in the Optionee’s capacity as an employee or director of the Company or as a shareholder of the Company solely exercising the Optionee’s voting or tendering rights.

(c) Other capitalized terms that are not defined herein have the meaning set forth in the Plan, except where the context does not reasonably permit.

EXHIBIT 1

**NOTICE OF EXERCISE OF
STOCK OPTION TO PURCHASE
COMMON STOCK OF
RICHARDSON ELECTRONICS, LTD**

Name: _____

Address: _____

Date: _____

Mr./Ms.
Richardson Electronics, Ltd
40W267 Keslinger Road
P.O. Box 393
LaFox, Illinois 60147-0393

Re: Exercise of Nonqualified Stock Option

Dear Sir or Madam:

Subject to acceptance hereof in writing by Richardson Electronics, Ltd. (the "Company") pursuant to the provisions of the Richardson Electronics, Ltd. Amended and Restated 2011 Long-Term Incentive Plan (the "Plan"), I hereby give at least three business days prior notice of my election to exercise options granted to me to purchase _____ shares of Common Stock of the Company under the Nonqualified Stock Option Award (the "Award") granted pursuant to the Plan and dated as of _____, _____. The purchase shall take place as of _____, _____ (the "Exercise Date").

On or before the Exercise Date, I will pay the applicable purchase price as follows:

- by delivery of cash or a certified check for \$ _____ for the full purchase price payable to the order of the Company.
- by delivery of a certified check for \$ _____ representing a portion of the purchase price with the balance to consist of shares of Common Stock that I own and that are represented by a stock certificate I will surrender to the Company with my endorsement. If the number of shares of Common Stock represented by such stock certificate exceeds the number to be applied against the purchase price, I understand that a new stock certificate will be issued to me reflecting the excess number of shares.
- by delivery of a stock certificate representing shares of Common Stock that I own which I will surrender to the Company with my endorsement as payment of the purchase price. If the number of shares of Common Stock represented by such certificate exceeds the number to be applied against the purchase price, I understand that a new certificate will be issued to me reflecting the excess number of shares.
- to the extent permitted by the Committee, by delivery of the purchase price by _____, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System. I hereby authorize the Company to issue a stock certificate in the number of shares indicated above in the name of said broker, dealer or other creditor or its nominee pursuant to instructions received by the Company and

to deliver said stock certificate directly to that broker, dealer or other creditor (or to such other party specified in the instructions received by the Company from the broker, dealer or other creditor) upon receipt of the purchase price. **NOTE: This choice is only available while the Common Stock is traded by brokers.**

As soon as the stock certificate is registered in my name, please deliver it to me at the above address.

If the Common Stock being acquired is not registered for issuance to and resale by the Optionee pursuant to an effective registration statement on Form S-8 (or successor form) filed under the Securities Act of 1933, as amended (the "1933 Act"), I hereby represent, warrant, covenant, and agree with the Company as follows:

The shares of the Common Stock being acquired by me will be acquired for my own account without the participation of any other person, with the intent of holding the Common Stock for investment and without the intent of participating, directly or indirectly, in a distribution of the Common Stock and not with a view to, or for resale in connection with any distribution of the Common Stock, nor am I aware of the existence of any distribution of the Common Stock;

I am not acquiring the Common Stock based upon any representation, oral or written, by any person with respect to the future value of, or income from, the Common Stock but rather upon an independent examination and judgment as to the prospects of the Company;

The Common Stock was not offered to me by means of any publicly disseminated advertisements or sales literature, nor am I aware of any offers made to other persons by such means;

I am able to bear the economic risks of the investment in the Common Stock, including the risk of a complete loss of my investment therein;

I understand and agree that the Common Stock will be issued and sold to me without registration under any state law relating to the registration of securities for sale, and will be issued and sold in reliance on the exemptions from registration under the 1933 Act, provided by Sections 3(b) and/or 4(2) thereof and the rules and regulations promulgated thereunder;

The Common Stock cannot be offered for sale, sold or transferred by me other than pursuant to: (A) an effective registration under the 1933 Act or in a transaction otherwise in compliance with the 1933 Act; and (B) evidence satisfactory to the Company of compliance with the applicable securities laws of other jurisdictions. The Company shall be entitled to rely upon an opinion of counsel satisfactory to it with respect to compliance with the above laws;

The Company will be under no obligation to register the Common Stock or to comply with any exemption available for sale of the Common Stock without registration or filing, and the information or conditions necessary to permit routine sales of securities of the Company under Rule 144 under the 1933 Act may not now be available and no assurance has been given that it or they will become available. The Company is under no obligation to act in any manner so as to make Rule 144 available with respect to the Common Stock;

I have and have had complete access to and the opportunity to review and make copies of all material documents related to the business of the Company, including, but not limited to, contracts, financial statements, tax returns, leases, deeds and other books and records. I have examined such of these documents as I wished and am familiar with the business and affairs of the Company. I realize that the purchase of the Common Stock is a speculative investment and that any possible profit therefrom is uncertain;

I have had the opportunity to ask questions of and receive answers from the Company and any person acting on its behalf and to obtain all material information reasonably available with respect to the Company and its affairs. I have received all information and data with respect to the Company which I have requested and which I have deemed relevant in connection with the evaluation of the merits and risks of my investment in the Company;

I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of the purchase of the Common Stock hereunder and I am able to bear the economic risk of such purchase; and

The agreements, representations, warranties and covenants made by me herein extend to and apply to all of the Common Stock of the Company issued to me pursuant to this Award. Acceptance by me of the certificate representing such Common Stock shall constitute a confirmation by me that all such agreements, representations, warranties and covenants made herein shall be true and correct at that time.

I understand that the certificates representing the shares being purchased by me in accordance with this notice shall bear a legend referring to the foregoing covenants, representations and warranties and restrictions on transfer, and I agree that a legend to that effect may be placed on any certificate which may be issued to me as a substitute for the certificates being acquired by me in accordance with this notice. I also understand that capitalized terms used, but not defined herein, shall have the meaning ascribed to them in the Award.

Very truly yours,

AGREED TO AND ACCEPTED:

RICHARDSON ELECTRONICS, LTD.

By: _____

Title: _____

Number of Shares Exercised: _____

Number of Shares Remaining: _____

Date: _____

EXHIBIT 2

**VESTING SCHEDULE
NONQUALIFIED STOCK OPTION AWARD
ISSUED PURSUANT TO THE
RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG-TERM INCENTIVE PLAN**

Vesting Schedule

Anything to the contrary notwithstanding, the Optionee may not exercise the Option, in whole or in part, unless and until the Optionee has completed the periods of continuous employment with the Company (or its subsidiaries) after the Grant Date as set forth below, in which event the Optionee shall be entitled to purchase the aggregate number of Option Shares as set forth below:

| <u>Periods of Continuous Employment Until</u> | <u>Aggregate Number of Option shares Eligible for Purchase</u> |
|---|--|
|---|--|

The right to purchase Option Shares under this Option shall be cumulative.

RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG TERM INCENTIVE PLAN AGREEMENT

RECEIPT

Agreement No. _____

Dated:

For: _____ shares of common stock of Richardson
Electronics, Ltd.

Issued to: _____

I, _____, received Agreement No. _____, this _____ day of
_____, 20_____.

Grantee

* * * * *

I, _____, surrendered Agreement No. _____, this _____ day of
_____, 20_____.

Grantee

RICHARDSON ELECTRONICS, LTD.
AMENDED AND RESTATED 2011 LONG TERM INCENTIVE PLAN AGREEMENT

BENEFICIARY DESIGNATION

Agreement No. _____

Dated:

For: _____ shares of common stock of Richardson
Electronics, Ltd.

Issued to: _____

I, _____, do hereby designate _____, as
Beneficiary, with respect to Agreement No. _____, this _____ day of
_____, 20_____.

Grantee

SUBSIDIARIES OF THE COMPANY

| | |
|--|----------------|
| Richardson Electronics Pty Limited | Australia |
| Richardson Electronics do Brasil Ltda. | Brazil |
| Richardson Electronics Canada, Ltd. | Canada |
| Richardson Electronics Trading (China) Co., Ltd. | China |
| Richardson Powerlink MEA | United Kingdom |
| Richardson Electronique SAS | France |
| Richardson Electronics GmbH | Germany |
| Richardson Electronics Hong Kong Limited | Hong Kong |
| Richardson Electronics India Private Limited | India |
| Aviv-Richardson Ltd. | Israel |
| Richardson Electronics S.r.l. | Italy |
| Richardson Electronics Japan K.K. | Japan |
| Richardson Electronics Korea Limited | Korea |
| Richardson Electronics S.A. de C.V. | Mexico |
| Richardson Electronics Benelux B.V. | Netherlands |
| Richardson Electronics Netherlands, B.V. | Netherlands |
| Richardson Electronics Global Holdings BV | Netherlands |
| Richardson Electronics Pte. Ltd. | Singapore |
| Richardson Electronics Iberica S.A. | Spain |
| Richardson Electronics Nordic AB | Sweden |
| Richardson Electronics (Thailand) Limited | Thailand |
| Richardson Electronics Limited | United Kingdom |
| Richardson International, Inc. | United States |

Consent of Independent Registered Public Accounting Firm

Richardson Electronics, Ltd.
LaFox, Illinois

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Number 333-04767, 333-70914, 333-129828, 333-146879, 333-182907, 333-206044, 333-227876 and 333-249383) of Richardson Electronics, Ltd. of our reports dated August 2, 2021, relating to the consolidated financial statements, and the effectiveness of Richardson Electronics, Ltd.'s internal control over financial reporting, which appear in this Annual Report on Form 10-K.

/s/ BDO USA, LLP

Chicago, Illinois

August 2, 2021

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

I, Edward J. Richardson, certify that:

1. I have reviewed this annual report on Form 10-K of Richardson Electronics, Ltd. for the fiscal year ended May 29, 2021;
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: August 2, 2021

Signature: /s/ Edward J. Richardson
Edward J. Richardson
Chairman of the Board and Chief Executive Officer

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

I, Robert J. Ben, certify that:

1. I have reviewed this annual report on Form 10-K of Richardson Electronics, Ltd. for the fiscal year ended May 29, 2021;
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: August 2, 2021

Signature: /s/ Robert J. Ben
Robert J. Ben
Chief Financial Officer and Chief Accounting Officer

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

In connection with the Annual Report of Richardson Electronics, Ltd. (the “Company”) on Form 10-K for the fiscal year ended May 29, 2021, 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

August 2, 2021

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

In connection with the Annual Report of Richardson Electronics, Ltd. (the “Company”) on Form 10-K for the fiscal year ended May 29, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert J. Ben, Chief Financial 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

August 2, 2021