TRIO TECH INTERNATIONAL
Form 10-Q
February 09, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended December 31, 2006

OR

o **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 1-14523
TRIO-TECH INTERNATIONAL
(Exact name of Registrant as specified in its Charter)

California	**95-2086631**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
14731 Califa Street **Van Nuys, California**	**91411**
(Address of principle executive offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **818-787-7000**

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 þ No o

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

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

Number of shares of common stock outstanding as of February 05, 2007 is 3,225,242

TRIO-TECH INTERNATIONAL
INDEX TO CONSOLIDATED FINANCIAL INFORMATION, OTHER INFORMATION AND SIGNATURE

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
ITEM 1. FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS EXCEPT NUMBER OF SHARES)

	December 31, 2006 (Unaudited)	June 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash	$ 5,021	$ 2,551
Short-term deposits	5,528	7,839
Trade accounts receivable, less allowance for doubtful accounts of $63 and $225	11,823	8,518
Other receivables	207	306
Inventories, less provision for obsolete inventory of $592 and $448	4,637	2,447
Prepaid expenses and other current assets	220	170
Total current assets	27,436	21,831
PROPERTY, PLANT AND EQUIPMENT, Net	8,161	7,073
OTHER INTANGIBLE ASSETS, Net	260	311
OTHER ASSETS	315	169
TOTAL ASSETS	$ 36,172	$ 29,384
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Line of credit	$ 1,947	$ 116
Accounts payable	6,308	3,809
Dividend payable	323	
Accrued expenses	3,356	3,045
Income taxes payable	532	311
Current portion of notes payable	726	856
Current portion of capital leases	121	107
Current portion of deferred tax liabilities	241	319
Total current liabilities	13,554	8,563
NOTES PAYABLE, net of current portion	364	644
CAPITAL LEASES, net of current portion	200	230
DEFERRED TAX LIABILITIES	458	359
TOTAL LIABILITIES	14,576	9,796
MINORITY INTEREST	2.327	2,196

SHAREHOLDERS EQUITY:			
Common stock; no par value, 15,000,000 shares authorized; 3,225,242 shares issued and outstanding as of December 31, 2006, and 3,219,407 shares issued and outstanding as of June 30, 2006, respectively		10,354	10,338
Paid-in capital		458	337
Accumulated retained earnings		8,382	7,150
Accumulated other comprehensive gain (loss) translation adjustments		75	(433)
Total shareholders equity		19,269	17,392
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	36,172	$ 29,384

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
UNAUDITED, IN THOUSANDS, EXCEPT (LOSS) EARNINGS PER SHARE

	Six Months Ended		Three Months Ended	
	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
Revenue				
Products	$ 14,772	$ 5,870	$ 8,794	$ 3,710
Services	9,171	7,260	5,273	3,715
	23,943	13,130	14,067	7,425
Cost of Sales				
Cost of products sold	12,429	4,915	7,632	3,220
Cost of service rendered	5,658	4,525	3,069	2,339
	18,087	9,440	10,701	5,559
Gross Margin	5,856	3,690	3,366	1,866
Operating Expenses				
General and administrative	3,044	3,282	1,653	1,993
Selling	536	515	274	230
Research and development	34	33	17	16
Impairment Loss	172	15	172	
Total operating expenses	3,786	3,845	2,116	2,239
Income (Loss) from Operations	2,070	(155)	1,250	(373)
Other Income (Expenses)				
Interest expense	(66)	(74)	(37)	(38)
Other income	110	112	73	82
Total Other income	44	38	36	44
Income (Loss) from Continuing Operations before Income Taxes	2,114	(117)	1,286	(329)
Income Tax Provision	478	184	453	112
	1,636	(301)	833	(441)

Income (Loss) from Continuing Operations before Minority Interest				
Minority Interest	(81)	19	(34)	(5)
Income (Loss) from Continuing Operations	1,555	(282)	799	(446)
Discontinued Operations (NOTE 10)				
Income from discontinued operations		8,459		8,837
Net Income Attributed to Common Shares	$ 1,555	$ 8,177	$ 799	$ 8,391
BASIC EARNINGS PER SHARE				
Basic (loss) earnings per share from Continuing operations	$ 0.48	$ (0.09)	$ 0.25	$ (0.15)
Basic earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Basic earnings per share	$ 0.48	$ 2.71	$ 0.25	$ 2.76

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	Six Months Ended		Three Months Ended	
	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
DILUTED EARNINGS PER SHARE				
Diluted earnings (loss) per share from Continuing operations	$ 0.48	$ (0.09)	$ 0.25	$ (0.15)
Diluted earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Diluted earnings per share	$ 0.48	$ 2.71	$ 0.25	$ 2.76
Weighted Average Shares Outstanding				
Basic	$ 3,222	$ 3,016	$ 3,223	$ 3,038
Diluted	3,234	3,016	3,235	3,038
COMPREHENSIVE INCOME				
Net income	$ 1,555	$ 8,177	$ 799	$ 8,391
Foreign currency translation adjustment	508	(746)	482	(766)
COMPREHENSIVE INCOME	$ 2,063	$ 7,431	$ 1,281	$ 7,625

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED, IN THOUSAND

	Dec. 31 2006 (unaudited)	Dec. 31 2005 (unaudited)
Cash Flow from Operating Activities		
Net income	$ 1,555	$ 8,177
Adjustments to reconcile net income to net cash flow provided by (used in) operating activities		
Depreciation and amortization	1,124	792
Bad debts expense, net	119	48
Inventory provision	144	1
Interest income on short-term deposits	(45)	(79)
Impairment Loss	172	15
Stock compensation	3	44
Gain on sale of property continued operations	(40)	
Gain on sale of property discontinued operations		(8,909)
Deferred tax provision	21	8
Minority interest	81	(19)
Changes in operating assets and liabilities, net of acquisition effects		
Accounts receivables	(3,424)	277
Other receivables	99	(185)
Other assets	(146)	
Inventories	(2,334)	330
Prepaid expenses and other liabilities	(50)	(182)
Accounts payable and accrued liabilities	2,810	350
Income tax payable	221	71
Net cash provided by operating activities	310	739
Cash Flow from Investing Activities		
Proceeds from short-term deposit matured	7,063	6,576
Investments in short-term deposits	(4,707)	(9,913)
Additions to property, plant and equipment	(2,020)	(704)
Proceeds from sale of equipment-continuing operation	49	
Proceeds from sale of property-discontinued operation		8,401
Advances to seller		(138)
Net cash provided by investing activities	385	4,222
Cash Flow from Financing Activities		
Net borrowings (payments) on lines of credits	1,831	(77)
Repayment of bank loans and capital leases	(463)	(501)
Proceeds from long-terms bank loans and capital leases	6	1,025
Proceeds from exercising stock options	16	232
Proceeds from 10% shareholder on the short swing profit of the company stock	118	

Dividends paid to minority interest	(42)	(27)
Net cash provided by financing activities	1,466	652
Effect of Changes in Exchange Rate	309	(18)

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	Dec. 31 2006 (unaudited)	Dec. 31 2005 (unaudited)
NET INCREASE IN CASH	2,470	5,595
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,551	1,439
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,021	$ 7,034
Supplementary Information Of Cash Flows		
Cash paid during the period for:		
Interest	$ 66	$ 77
Income taxes	$ 254	$ 2,071
NON-CASH Transactions		
Capital lease of property, plant and equipment	$ 30	$
Declaration of cash dividends to be paid	$ 323	$ 1,608

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AND NUMBER OF SHARES)

1. ORGANIZATION AND BASIS OF PRESENTATION

Trio-Tech International (the Company or TTI thereafter) was incorporated in fiscal 1958 under the laws of the State of California. TTI provides third-party semiconductor testing and burn-in services primarily through its laboratories in Southeast Asia. In addition, TTI operates test facilities in the United States. The Company also designs, develops, manufactures and markets a broad range of equipment and systems used in the manufacturing and testing of semiconductor devices and electronic components. TTI conducts business in three business segments: Testing Services, Manufacturing and Distribution. TTI has subsidiaries in the U.S., Singapore, Malaysia, Thailand, China and Ireland as follows:

	Ownership	Location
Express Test Corporation (Dormant)	100%	Van Nuys, California
Trio-Tech Reliability Services (Dormant)	100%	Van Nuys, California
KTS Incorporated, dba Universal Systems (Dormant)	100%	Van Nuys, California
European Electronic Test Centre (Operation ceased on November 1, 2005)	100%	Dublin, Ireland
Trio-Tech International Pte. Ltd.	100%	Singapore
Universal (Far East) Pte. Ltd.	100%	Singapore
Trio-Tech Thailand	100%	Bangkok, Thailand
Trio-Tech Bangkok	100%	Bangkok, Thailand
Trio-Tech Malaysia	55%	Penang and Selangor, Malaysia
Trio-Tech Kuala Lumpur 100% owned by Trio-Tech Malaysia	55%	Selangor, Malaysia
Prestal Enterprise Sdn. Bhd.	76%	Selangor, Malaysia
Trio-Tech (Suzhou) Co. Ltd.	100%	Suzhou, China
Trio-Tech (Shanghai) Co. Ltd.	100%	Shanghai, China

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All significant inter-company accounts and transactions have been eliminated in consolidation. The unaudited consolidated financial statements are presented in U.S. dollars. The accompanying financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report for the fiscal year ended June 30, 2006.

Reclassification: Certain prior year balances may have been reclassified to conform to the current presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standard Board FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. FIN 48 will be effective as of the beginning of our fiscal year 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We expect that the adoption of FIN 48 will not have a material impact on our consolidated results of operations or financial position**.**

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which will be effective for the fiscal year ending after November 15, 2006. The objective of SAB 108 is to eliminate diversity in practice surrounding how public companies quantify financial statement

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misstatements. SAB requires quantification of financial statement misstatements based on the effects of the misstatements on the consolidated statement of income, the consolidated balance sheet and related financial statement disclosures.

According to SAB 108, both rollover and iron curtain approaches must be considered when evaluating a misstatement for materiality. This is referred to as the dual approach. For the companies that have previously evaluated misstatements under one, but not both, of these methods, SAB 108 provides companies with a one-time option to record the cumulative effect of their prior unadjusted misstatements in a manner similar to a change in accounting principle in their annual financial statements during the effective time period if (i) the cumulative amount of the unadjusted misstatements at the beginning of the adopting year would have been material under the dual approach to their annual financial statements for the prior year or (ii) the effect of correcting the unadjusted misstatements during the adopting year would cause these annual financial statements to be materially misstated under the dual approach. In accordance with SAB 108, companies are allowed, upon adoption, to record the effects as a cumulative effect adjustment to the retained earnings. We are currently assessing what impact, if any, that adoption of SAB 108 will have on our financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS157), which defines fair value, established a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact adoption may have on its financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers accounting for Defined Benefit Pension and Other Postretirement Plans, which require an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. We expect that the adoption of SFAS No. 158 will not have a material impact on our consolidated results of operations or financial position.

3. INVENTORIES

Inventories consisted of the following:

	Dec. 31, 2006 (Unaudited)	June 30, 2006
Raw materials	$ 1,272	$ 827
Works in progress	3,723	1,803
Finished goods	234	265
Less: provision for obsolete inventory	(592)	(448)
	$ 4,637	$ 2,447

4. STOCK OPTIONS

The Company had two share-based compensation plans, which are described below. The Company historically adopted the APB No. 25 approach intrinsic value method and presented the pro forma information in line with the requirements of SFAS No. 123. Historically, there was no stock based compensation cost charged against income for the fiscal years ended June 30, 2005 and 2004. There was no income tax benefit related to share-based compensation for the fiscal years ended June 30, 2005 and 2004, as the Company did not claim a deduction for corporate income tax purposes.

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payments*, using the modified prospective application method. Under this transition method, compensation cost recognized during the six months ended December 31, 2006 included the applicable amounts of: (a) compensation cost of all share-based payments granted prior to, but not yet vested as of, July 1, 2005 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123) and (b) compensation cost for all share-based payments

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granted subsequent to July 1, 2005 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123R). Amortization of unrecognized fair value of the non-vested options was $2 and $1 for the six months ended and three months ended December 31, 2006, respectively.

On December 2, 2005, the Board of Directors terminated these two share-based compensation plans due to the cost of such compensation exceeding the benefits. There were no stock options granted during the six months ended December 31, 2006.

Assumptions

The disclosure of the above fair value for these awards was estimated using the Black-Scholes option pricing model with the assumptions listed below:

	Six Months Ended December 31, 2006	Years Ended June 30, 2006	June 30, 2005	June 30, 2004
Expected volatility	73.22-81.96%	49.5-51.53%	33.5 - 36.8%	41.9%
Weighted average volatility	81.96%	49.5%	33.9%	41.9%
Risk free interest rate	4.67-5.12%	3.71-4.50%	2.89 - 3.27%	