

TRIO TECH INTERNATIONAL

Form 10-Q

May 10, 2007

Table of Contents

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

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

For the Quarterly Period Ended March 31, 2007

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 1-14523

TRIO-TECH INTERNATIONAL

(Exact name of Registrant as specified in its Charter)

California

(State or other jurisdiction of
incorporation or organization)

95-2086631

(I.R.S. Employer
Identification Number)

14731 Califa Street

Van Nuys, California

(Address of principle executive offices)

91411

(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 ☒ No ☐

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 ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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

Number of shares of common stock outstanding as of May 07, 2007 is 3,227,992

TRIO-TECH INTERNATIONAL

INDEX TO CONSOLIDATED FINANCIAL INFORMATION, OTHER INFORMATION AND SIGNATURE

	Page
Part I. Financial Information	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 (Unaudited) and June 30, 2006</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (loss) for the</u>	
<u>Three and Nine Months Ended March 31, 2007 (Unaudited) and March 31, 2006 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31,</u>	
<u>2007 (Unaudited) and March 31, 2006 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4T. Controls and Procedures	30
 Part II. Other Information	
Item 1. Legal Proceedings	31
Item 1A. Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3. Defaults upon Senior Securities	31
Item 4. Submission of Matters to a Vote of Security Holders	31
Item 5. Other Information	31
Item 6. Exhibits	31
 Signatures	32
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32</u>	

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

	March 31, 2007 (Unaudited)	June 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,480	\$ 2,551
Short-term deposits	7,503	7,839
Trade accounts receivable, less allowance for doubtful	10,472	8,518
accounts of \$38 and \$225 Other receivables	237	306
Inventories, less provision for obsolete inventory of \$599 and \$448	1,986	2,447
Prepaid expenses and other current assets	166	170
 Total current assets	 23,844	 21,831
 PROPERTY, PLANT AND EQUIPMENT, Net	 7,900	 7,073
OTHER INTANGIBLE ASSETS, Net	238	311
OTHER ASSETS	271	169
 TOTAL ASSETS	 \$ 32,253	 \$ 29,384
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	\$ 432	\$ 116
Accounts payable	1,629	3,809
Accrued expenses	4,496	3,045
Income taxes payable	597	311
Current portion of notes payable	660	856
Current portion of capital leases	127	107
Current portion of deferred tax liabilities	253	319
 Total current liabilities	 8,194	 8,563
 NOTES PAYABLE, net of current portion	 224	 644
CAPITAL LEASES, net of current portion	186	230
DEFERRED TAX LIABILITIES	450	359
 TOTAL LIABILITIES	 9,054	 9,796
 MINORITY INTEREST	 2,391	 2,196

SHAREHOLDERS' EQUITY:

Common stock; no par value, 15,000 shares authorized; 3,225,992 shares issued and outstanding as of March 31, 2007, and 3,219,407 shares issued and outstanding as of June 30, 2006, respectively	10,361	10,338
Paid-in capital	459	337
Accumulated retained earnings	9,463	7,150
Accumulated other comprehensive gain (loss) translation adjustments	525	(433)
Total shareholders' equity	20,808	17,392
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 32,253	\$ 29,384

See notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended		Three Months Ended	
	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)
Revenue				
Products	\$ 22,037	\$ 8,888	\$ 7,265	\$ 3,018
Services	15,519	10,711	6,348	3,451
	37,556	19,599	13,613	6,469
Cost of Sales				
Cost of products sold	18,431	7,214	6,002	2,299
Cost of services rendered	9,655	6,923	3,997	2,398
	28,086	14,137	9,999	4,697
Gross Margin	9,470	5,462	3,614	1,772
Operating Expenses				
General and administrative	4,948	4,542	1,904	1,261
Selling	882	768	346	253
Research and development	52	53	18	20
Impairment loss	174	15	2	
Loss on disposal of property, plant & equipment		22		22
Total operating expenses	6,056	5,400	2,270	1,556
Income from Operations	3,414	62	1,344	216
Other Income (Expenses)				
Interest expense	(119)	(111)	(53)	(37)
Other income	155	196	45	84
Total Other income (Expenses)	36	85	(8)	47
Income from Continuing Operations before Income Taxes	3,450	147	1,336	263
Income Tax Provision	717	290	239	106

Income (Loss) from Continuing Operations before Minority Interest	2,733	(143)	1,097	157
Minority Interest	(97)	36	(16)	17
Income (Loss) from Continuing Operations	2,636	(107)	1,081	174
Discontinued Operations (NOTE 9) Income from Discontinued Operations		8,459		
Net Income Attributed to Common Shares	\$ 2,636	\$ 8,352	\$ 1,081	\$ 174
BASIC EARNINGS PER SHARE				
Basic earnings (loss) per share from Continuing operations	\$ 0.82	\$ (0.03)	\$ 0.34	\$ 0.05
Basic earnings per share from Discontinued operations	0.00	2.74	0.00	0.00
Basic earnings per share	\$ 0.82	\$ 2.71	\$ 0.34	\$ 0.05

Table of Contents

	Nine Months Ended		Three Months Ended	
	March	March 31,	March	March 31,
	31,	2006	31,	2006
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
DILUTED EARNINGS PER SHARE				
Diluted earnings (loss) per share from Continuing operations	\$ 0.82	\$ (0.03)	\$ 0.33	\$ 0.05
Diluted earnings per share from Discontinued operations	0.00	2.74	0.00	0.00
Diluted earnings per share	\$ 0.82	\$ 2.71	\$ 0.33	\$ 0.05
Weighted Average Shares Outstanding				
Basic	3,223	3,080	3,224	3,211
Diluted	3,233	3,080	3,234	3,225
COMPREHENSIVE INCOME:				
Net income	\$ 2,636	\$ 8,352	\$ 1,081	\$ 174
Foreign currency translation adjustment	957	(384)	449	363
COMPREHENSIVE INCOME	\$ 3,593	\$ 7,968	\$ 1,530	\$ 537

See notes to condensed consolidated financial statements.

Table of Contents**TRIO-TECH INTERNATIONAL AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED, IN THOUSANDS**

	March 31, 2007 (unaudited)	March 31, 2006 (unaudited)
Cash Flow from Operating Activities		
Net income	\$ 2,636	\$ 8,352
Adjustments to reconcile net income to net cash flow provided by (used in) operating activities		
Depreciation and amortization	2,007	1,229
Bad debts expense, net	145	113
Inventory provision	151	3
Interest income on short-term deposits	(66)	(139)
Impairment loss	174	15
Stock compensation	4	50
Gain on sale of property discontinued operations		(8,909)
(Gain) Loss on sale of equipments	(41)	22
Deferred tax provision	25	58
Minority interest	98	(36)
Changes in operating assets and liabilities, net of acquisition effects		
Accounts receivables	(2,099)	(1,154)
Other receivables	69	(183)
Other assets	(102)	(19)
Inventories	310	15
Prepaid expenses and other current assets	4	(82)
Accounts payable and accrued liabilities	(729)	154
Income tax payable	286	100
Net cash provided (used) by operating activities	2,872	(411)
Cash Flow from Investing Activities		
Proceeds from short-term deposits matured	10,238	9,815
Investments in short-term deposits	(9,836)	(14,987)
Additions to property, plant and equipment	(2,409)	(952)
Acquisition of a company in China		(138)
Proceeds from sale of equipment-continuing operations	50	137
Proceeds from sale of property-discontinued operations		8,401
Net cash (used) provided by investing activities	(1,957)	2,276
Cash Flow from Financing Activities		
Net borrowings (payments) on lines of credits	316	(111)
Repayment of bank loans and capital leases	(698)	(756)
Proceeds from long-terms bank loans and capital leases	6	1,045
Proceeds from exercising stock options	23	784
Proceeds from 10% shareholder on the short swing profit of the company stock	118	

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Dividends paid to minority interest	(42)	(28)
Dividends paid to shareholders	(323)	(1,608)
Net cash used by financing activities	(600)	(674)

Table of Contents

	March 31, 2007 (unaudited)	March 31, 2006 (unaudited)
Effect of Changes in Exchange Rate	614	165
NET INCREASE IN CASH	929	1,356
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,551	1,439
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,480	\$ 2,795

Supplementary Information Of Cash Flows

Cash paid during the period for:

Interest	\$ 119	\$ 114
Income taxes	\$ 433	\$ 2,121

Non-Cash Transactions

Capital lease of property, plant and equipment	\$ 52	\$ 287
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See notes to condensed consolidated financial statements.

Table of Contents**TRIO-TECH INTERNATIONAL AND SUBSIDIARIES****NOTES TO 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 nine months ended March 31, 2007 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.

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

Change in Estimate: During the third quarter of fiscal 2007, management determined that the useful life of fixed assets for smart burn in projects was shorter than originally expected. Revised useful life of these assets resulted in an additional depreciation expense of \$113K, or \$0.03 per diluted share in the third quarter ended March 31, 2007.

2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, (thereafter FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. A company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. We expect that the adoption of FIN 48 will not have a material impact on our consolidated results of operations or financial position.

Table of Contents

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact adoption may have on its financial condition or results of operations.

In September 2006, the FASB issued FASB Staff Position: Accounting for Planned Major Maintenance Activities, (thereafter FSP AUG AIR-1). FSP AUG AIR-1 addresses the accounting for planned major maintenance activities. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting in annual and interim financial reporting periods for planned major maintenance activities, which had previously allowed companies the right to recognize planned major maintenance costs by accruing a liability over several reporting periods before the maintenance was performed. FSP AUG AIR-1 still allows the direct expense, built-in-overhaul and deferral methods of accounting as acceptable, however it does mandate that companies apply the same method of accounting in both interim and annual financial reporting periods and that the method be retrospectively applied if applicable. FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FSP AUG AIR-1 will have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which is effective for fiscal years ending after November 15, 2006. The objective of SAB 108 is to eliminate diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 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 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. The Company does not believe that the adoption of SAB 108 will have significant impact on its financial position and results of operations.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115, which will become effective in 2008. SFAS No. 159 permits entities to choose to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The Company has not yet determined whether it will elect the option provided in this standard, or the impact that the elective adoption may have on our consolidated financial position, operating results or cash flows.

3. INVENTORIES

Inventories consisted of the following:

	March 31, 2007 (Unaudited)	June 30, 2006
Raw materials	\$ 1,342	\$ 827
Works in progress	1,022	1,803
Finished goods	221	265
Less: provision for obsolete inventory	(599)	(448)
	\$ 1,986	\$ 2,447

Table of Contents**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 nine months ended March 31, 2007 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 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 \$4 and \$1 for the nine months ended and three months ended March 31, 2007, 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 nine months ended March 31, 2007.

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:

	Nine Months Ended		Years Ended		June 30,
	March 31, 2007	June 30, 2006	June 30, 2005		2004
Expected volatility	73.22-89.71%	49.5-51.53%	33.5 - 36.8%		41.9%
Weighted average volatility	89.71%	49.5%	33.9%		41.9%
Risk free interest rate	4.57-5.12%	3.71-4.50%	2.89 - 3.27%		2.76%
Expected life (years)	2.00	2.00	2.00		2.00

The expected volatilities are based on the historical volatility of the Company's stock. The observation is made on a weekly basis. The observation period covered is consistent with the expected terms of options. The expected terms of stock options are based on the average vesting period on a basis consistent with the historical experience of the similar option grants. The risk-free rate is consistent with the expected terms of the stock option and based on the United States Treasury yield curve in effect at the time of grant.

1998 Stock Option Plan

The Company's 1998 Stock Option Plan (the "1998 Plan"), which is shareholder-approved, permits the grant of stock options to its employees of up to 300,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. These options have a five-year contractual life term. Awards generally vest over four years; with 25% vesting on the grant date, and the

balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The share-based compensation will be amortized based on an accelerated method over the four periods. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 1998 Plan).

Table of Contents

A summary of option activities under the 1998 Plan during the nine months of fiscal 2007 ended March 31, 2007 is presented as follows:

	Options	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 1, 2006	28,885	\$ 2.97		
Granted				
Exercised	(8,585)	2.71		
Forfeited or expired	(7,250)	3.18		
Outstanding at March 31, 2007	13,050	\$ 3.03	2.00	\$ 141,897
Exercisable at March 31, 2007	11,675	\$ 2.86	2.00	\$ 128,835

The intrinsic value of the 8,585 options exercised was \$78. Cash received from options exercised during the nine months ended March 31, 2007 was approximately \$23. There were no options granted during the nine months ended March 31, 2007 under the 1998 Stock Option Plan.

A summary of the status of the Company's non-vested stock options during the nine months of fiscal 2007 ended March 31, 2007 is presented below:

	Options	Weighted-Average Grant- Date Fair Value
Non-vested at July 1, 2006	13,250	\$ 0.81
Granted		
Vested	(11,625)	0.76
Forfeited	(250)	0.68
Non-vested at March 31, 2007	1,375	\$ 1.31

As of March 31, 2007, there was approximately \$2 of accumulated unrecognized stock compensation based on fair value on the grant date related to non-vested options granted under the 1998 Plan. That cost was expected to be recognized during the weighted average period of 1.5 years.

Directors' Stock Option Plan

The Directors' Stock Option Plan (the "Directors' Plan"), which is shareholder-approved, permits the grant of stock options to its duly elected non-employee Directors and one of the corporate officers of the Company (if he or she is also a director of the Company) and covers 300,000 shares of common stock. Prior to July 1, 2003, option awards were granted with an exercise price equal to 85% of the fair market price of the Company's stock at the grant date. Subsequent to July 1, 2003, the Board approved an amendment to the Directors' Plan requiring options to purchase the Company's common stock to be exercisable at a price equal to 100% of the fair market value of

the underlying shares on the grant date. These options have five-year contractual terms. Options awards are exercisable immediately as of the grant date.

As of July 1, 2006, there were no stock options outstanding under the Directors' plan, and there were no options exercisable. Because the Directors' plan was terminated in December 2005, there were no options granted during the nine months ended March 31, 2007.

Table of Contents**5. EARNINGS PER SHARE**

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (EPS). Basic EPS are computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the average price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

Stock options to purchase 13,050 shares at exercise prices ranging from \$2.66 to \$4.40 per share were outstanding as of March 31, 2007. No options were excluded in the determination of common shares equivalents, because the average market price of common shares was greater than the exercise price of the stock options. The resulted common shares equivalents were approximately 10,000 shares and are presented in the following table for earnings per share calculation purposes.

Stock options to purchase 29,385 shares at exercise prices ranging from \$2.66 to \$4.40 per share were outstanding as of March 31, 2006. No options were excluded in the determination of common shares equivalents because the average market price of common shares was greater than the exercise price of the stock options. The resulted common shares equivalents were approximately 14,000 shares and were presented in the following table for earnings per share calculation purposes. However, 12,257 options were excluded in the computation of diluted EPS for the nine months ended March 31, 2006 since they were anti-dilutive.

The following table is a reconciliation of the weighted average shares used in the computation of basic and diluted EPS for the years presented herein:

	Nine Months Ended		Three Months Ended	
	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)	March 31, 2007 (Unaudited)	March 31, 2006 (Unaudited)
Net (loss) income from continuing operations	\$ 2,636	\$ (107)	\$ 1,081	\$ 174
Net income from discontinued operations	\$	\$ 8,459	\$	\$
Net income attributable to common shares	\$ 2,636	\$ 8,352	\$ 1,081	\$ 174
Basic Earnings (Loss) Per Share				
Basic earnings (loss) per share from Continuing operations	\$ 0.82	\$ (0.03)	\$ 0.34	\$ 0.05
Basic earnings per share from Discontinued operations		2.74		
Basic earnings per share from Net Income	\$ 0.82	\$ 2.71	\$ 0.34	\$ 0.05
Diluted (Loss) Earnings Per Share				
	\$ 0.82	\$ (0.03)	\$ 0.33	\$ 0.05

Diluted (loss) earnings per share from Continuing operations				
Diluted earnings per share from Discontinued operations		2.74		
Diluted earnings per share from Net Income	\$ 0.82	\$ 2.71	\$ 0.33	\$ 0.05
Weighted average number of common shares outstanding basic	3,223	3,080	3,224	3,211
Dilutive effect of stock options	10		10	14
Number of shares used to compute earnings per share diluted	3,233	3,080	3,234	3,225

6. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are customer obligations due under normal trade terms. We sell our products and services to manufacturers in the semiconductor industry. We perform continuing credit evaluations of our customers financial condition, and although we generally do not require collateral, letters of credit may be required from our customers in certain circumstances.

Table of Contents

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. We include any accounts receivable balances that are determined to be uncollectible in our allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, we believe our allowance for doubtful accounts for the nine months ended March 31, 2007 and the twelve months ended June 30, 2006 was adequate.

The following table represents the changes in the allowance for doubtful accounts:

	March 31, 2007 (Unaudited)	June 30, 2006
Beginning	\$ 225	\$ 147
Additions charged to expenses	17	260
Recovered	(162)	(85)
Actual write-offs	(42)	(97)
Ending	\$ 38	\$ 225

7. DIVIDEND PAID TO SHAREHOLDERS

On December 5, 2006, the Board of Directors of Registrant declared a cash dividend of ten cents (U.S. 10¢) per share payable to the shareholders of record on December 15, 2006. The total number of shares issued and outstanding as of December 15, 2006 was 3,225,242 and the total cash dividends paid on January 15, 2007 were \$323.

8. WARRANTY ACCRUAL

	March 31 2007 (Unaudited)	June 30, 2006
Beginning	\$ 142	\$ 155
Additions charged to cost and expenses	92	
Recovered	(2)	(1)
Actual write-offs	(1)	(12)
Ending	\$ 231	\$ 142

9. DISCONTINUED OPERATIONS

The Company's Ireland operation, as a component of the testing segment, suffered continued operating losses for three consecutive fiscal years and the cash flow was minimal for three consecutive years. In August 2005, the Company established a restructuring plan to close the testing operation in Dublin, Ireland. In November 2005, the Company completed the sale of said property. In accordance with EITF 03-13, we presented the operation results from Ireland as a discontinued operation. The income from discontinued operations of \$8,459 for the nine months ended March 31, 2006 represented gain from the sale of property located in Dublin, Ireland of \$8,909, which was completed in November 2005, offset by a loss from discontinued operations of \$450.

10. BUSINESS SEGMENTS

The Company operates principally in three industry segments; the testing service industry (which performs structural and electronic tests of semiconductor devices), the designing and manufacturing of equipment (which equipment tests the structural integrity of integrated circuits and other products) and the distribution of various products from other manufacturers in Singapore and Southeast Asia. The following net sales were based on customer location rather than subsidiary location.

Table of Contents

The allocation of the cost of equipment, the current year investment in new equipment and depreciation expenses have been made on the basis of the primary purpose for which the equipment was acquired.

All inter-segment sales were sales from the manufacturing segment to the testing and distribution segments. Total inter-segment sales were \$122 and \$61 for the nine months ended March 31, 2007 and 2006, respectively.

Corporate assets mainly consisted of cash and prepaid expenses. Corporate expenses mainly consisted of salaries, insurance, professional expenses and directors fees.

The following segment information is unaudited:

Business Segment Information:

	Quarter Ended March 31,	Net Sales	Operating Income (loss)	Total Assets	Depr. and Amort.	Capital Expenditures
Manufacturing	2007	\$ 6,923	\$ 350	\$ 3,511	\$ 53	\$ 98
	2006	2,685	192	3,503	31	101
Testing Services	2007	6,348	1,077	27,978	826	313
	2006	3,451	178	21,346	402	567
Distribution	2007	342	(91)	556	4	
	2006	333	(131)	849	4	
Corporate and unallocated	2007		8	208		
	2006		(23)	620		
Total Company	2007	\$13,613	\$1,344	\$32,253	\$883	\$ 411
	2006	\$ 6,469	\$ 216	\$26,318	\$437	\$ 668

Table of Contents**Business Segment Information:**

	Nine Months Ended March 31,	Net Sales	Operating Income (loss)	Total Assets	Depr. and Amort.	Capital Expenditures
Manufacturing	2007	\$20,602	\$1,041	\$ 3,511	\$ 147	\$ 246
	2006	7,151	(100)	3,503	81	299
Testing Services	2007	15,519	2,421	27,978	1,848	2,214
	2006	10,711	1,197	21,346	1,137	1,072
Distribution	2007	1,435	(101)	556	12	1
	2006	1,737	(133)	849	11	1
Corporate and unallocated	2007		53	208		
	2006		(902)	620		
Total Company	2007	\$37,556	\$3,414	\$32,253	\$2,007	\$2,461
	2006	\$19,599	\$ 62	\$26,318	\$1,229	\$1,372

Geographic Area Information:

	Quarter Ended March 31,	United States	China and other countries	Singapore	Thailand	Malaysia	Elimin- ations and Other	Total Company
Net sales to customers	2007	\$1,301	\$1,395	\$8,493	\$617	\$1,868	\$ (61)	\$13,613
	2006	458	387	3,335	445	1,875	(31)	6,469
Operating Income	2007	104	126	854	63	189	8	1,344
(loss)	2006	(18)	(4)	153	21	87	(23)	216
Long-lived Assets	2007	\$ 10	\$ 848	\$3,695	\$877	\$2,748	\$ (40)	\$ 8,138
	2006	\$ 23	\$ 165	\$3,689	\$831	\$2,900	\$ (40)	\$ 7,568

Geographic Area Information:

	Nine Months Ended March 31,	United States	China and other countries	Singapore	Thailand	Malaysia	Elimin- ations and Other	Total Company
Net sales to customers	2007	\$5,152	\$5,011	\$21,030	\$1,763	\$4,722	\$ (122)	\$37,556
	2006	1,985	1,078	11,714	1,395	3,488	(61)	19,599
Operating	2007	362	438	1,955	165	441	53	3,414

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Income (loss)	2006	(32)	(7)	707	85	211	(902)	62
Long-lived Assets	2007	\$ 10	\$ 848	\$ 3,695	\$ 877	\$2,748	\$ (40)	\$ 8,138
	2006	\$ 23	\$ 165	\$ 3,689	\$ 831	\$2,900	\$ (40)	\$ 7,568
				15				

Table of Contents

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following should be read in conjunction with the condensed consolidated financial statements and notes in Item 1 above and with the audited consolidated financial statements and notes, and with the information under the headings

Risk factors and Management's discussion and analysis of financial condition and results of operations in the most recent Annual Report on Form 10-K.

Forward-Looking Statements

The discussions of Trio-Tech International's (the Company) business and activities set forth in this Form 10-Q and in other past and future reports and announcements by the Company may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and assumptions regarding future activities and results of operations of the Company. In light of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the following factors, among others, could cause actual results to differ materially from those reflected in any forward-looking statements made by or on behalf of the Company: market acceptance of Company products and services; changing business conditions or technologies and volatility in the semiconductor industry, which could affect demand for the Company's products and services; the impact of competition; problems with technology; product development schedules; delivery schedules; changes in military or commercial testing specifications which could affect the market for the Company's products and services; difficulties in profitably integrating acquired businesses, if any, into the Company; risks associated with conducting business internationally and especially in Southeast Asia, including currency fluctuations and devaluation, currency restrictions, local laws and restrictions and possible social, political and economic instability; and other economic, financial and regulatory factors beyond the Company's control. See the discussions elsewhere in this Form 10-Q, including under the heading Certain Risks That May Affect Our Future Results, for more information. In some cases, you can identify forward-looking statements by the use of terminology such as may, will, expects, plans, anticipates, estimates, potential, believes, can impact, continue, or the negative thereof or other comparable terminology.

We undertake no obligation to update forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events.

Overview

Founded in 1958, Trio-Tech International provides third-party semiconductor testing and burn-in services primarily through its laboratories in Southeast Asia. The Company also designs, manufactures and markets equipment and systems, and distributes semiconductor processing and testing equipment manufactured by others. The Company operates in three business segments: Testing Services, Manufacturing and Distribution.

We own and operate facilities that provide testing services for semiconductor devices and other electronic components to meet the requirements of military, aerospace, industrial and commercial applications. We currently operate five testing facilities, one in the United States and four in Southeast Asia. The Company uses its own proprietary equipment for certain burn-in, centrifugal and leak tests, and commercially available equipment for various other environmental tests. The Company conducts the majority of its testing operations in Southeast Asia with facilities in Singapore, Malaysia and Thailand. In the second quarter of fiscal 2007, our China operations in Suzhou started its testing operation. We believe that the burn-in testing business in Suzhou will enhance our future growth opportunities and develop our China market share in testing services. Our facilities require substantial investment to construct and are largely fixed-costs assets once in operation. Because we own most of the testing capacity, a significant portion of our operating costs is fixed. In general, these costs do not decline with reductions in customer demand or our utilization of our testing capacity, and can adversely affect profit margin as a result. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over the increased output, which should improve profit margins.

Our manufacturing segment manufactures Artic Temperature Controlled Wafer Chucks, which are used for test, characterization and failure analysis of semiconductor wafers, Wet Process Stations, which wash and dry wafers at a series of 100 to 300 additional processing steps after the etching or deposition of integrated circuits, and other

microelectronic substrates in what is commonly called the front-end, or creation of semiconductor circuits. Additionally, we also manufacture centrifuges, leak detectors, HAST (Highly Accelerated Stress Test) systems and burn-in systems that are used primarily in the back-end of the semiconductor manufacturing process to test finished semiconductor devices and electronic components.

In the United States, our manufacturing segment focuses on marketing used and refurbished equipment, which some of our customers are more willing to purchase, as it is less expensive than new equipment.

Table of Contents

Due to the competitive environment in the manufacturing segment, we anticipate that we will continue to implement our ongoing cost reduction plan by outsourcing a portion of our manufacturing process to outside suppliers, such as electrical and mechanical fabrication houses, and seek competitively priced materials.

Our distribution segment operates primarily in Southeast Asia. This segment markets and supports distribution of the Company's own manufactured equipment in addition to distributing complementary products from other manufacturers that are used by the Company's customers and other semiconductor and electronics manufacturers. One of the strategic business units also serves as a distributor of electronic components to customers. We continued to focus our marketing efforts on Asia, as we believe that Asian markets are growing faster than other markets due to rapid expansion in the China market. We also believe that due to our strategic position in the heart of Asia, we are in a good position to service customers in all of Southeast Asia.

On March 8, 2007, we hired Burnham Hill Partners, a division of Pali Capital, Inc in the United States, to act as (i) our exclusive financial advisor in connection with one or more potential strategic transactions currently being explored by the Company, which may include an acquisition, joint venture, partnership, strategic alliance, merger and/or sale involving the Company and (ii) our placement agent or underwriter in connection with the raising of debt or equity capital. We believe that the agreement that we made with Burnham Hill Partners is not a material definitive agreement. One of our directors, Jason Adelman, is a partner of Burnham Hill Partners. Burnham Hill Partners proposed a fee arrangement that was consistent with industry standards for transactions of that nature, and an agreement which would expire 12 months from the date into which it was entered. The agreement was approved by the Board of Directors of the Company in good faith by a vote sufficient without counting the vote of Mr. Adelman and, in the judgment of the Board of Directors, was just and reasonable at the time the agreement was so approved.

Third Quarter Fiscal 2007 Highlights

Revenue increased 110.4% to \$13,613 for the third quarter of fiscal 2007, compared with revenue of \$6,469 for the third quarter of fiscal 2006.

Manufacturing segment revenues increased by \$4,238, or 157.8%, to \$6,923, compared to \$2,685 for the third quarter of fiscal 2006.

Testing segment revenue increased by \$2,897, or 83.9%, to \$6,348, compared to \$3,451 for the third quarter of fiscal 2006.

Income from continuing operations increased by \$907 to \$1,081 for the third quarter of fiscal 2007, compared to \$174 for the third quarter of fiscal 2006.

Gross profit margins decreased slightly by 0.9% to 26.5% for the third quarter of fiscal 2007, compared with gross profit margins of 27.4% for the same period last fiscal year.

General and administrative expenses were 14.0% of revenue, representing a decrease from 19.5% of revenue for the third quarter of fiscal 2006.

Selling expenses were 2.5% of revenue, decreased from 3.9% of revenue for the third quarter of fiscal 2006.

Results of Operations and Business Outlook

Overall, total sales for the nine months and three months ended March 31, 2007 were \$37,556 and \$13,613, respectively, an increase of \$17,957 and \$7,144, respectively, when compared to the same periods last fiscal year. As a percentage, total net sales increased by 91.6% and 110.4% for the nine months and three months ended March 31, 2007, respectively, when compared to total net sales for the same periods last fiscal year.

Total net sales into and within China and the Southeast Asia regions and other countries (except sales into and within the United States) increased by \$14,790 to \$32,404 and by \$6,301 to \$12,312 for the nine months and three months ended March 31, 2007, respectively, compared to the same periods last fiscal year. This overall increase was primarily

due to an increase in sales from the manufacturing segment and testing segment. Total net sales into and within the United States were \$5,152 and \$1,301 for the nine months and three months ended March 31, 2007, respectively, an increase of \$3,167 and \$843, respectively, when compared to the same periods last fiscal year.

Table of Contents

The following table sets forth our revenue components for the nine and three months ended March 31, 2007 and 2006, respectively.

Revenue Components

	Nine Months Ended March 31, 2007	March 31, 2006	Three Months Ended March 31, 2007	March 31, 2006
Net Sales:				
Manufacturing	54.86%	36.49%	50.86%	41.50%
Testing	41.32	54.65	46.63	53.35
	3.w Roman"			
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JOHN J. HOUNSLOW*

Director

JOHN J. HOUNSLOW

/s/ WALTER T. KACZMAREK

Director and Chief Executive Officer

WALTER T. KACZMAREK

(Principle Executive Officer)

MARK E. LEFANOWICZ*

Director

MARK E. LEFANOWICZ

/s/ LAWRENCE D. MCGOVERN

Executive Vice President and Chief Financial Officer

LAWRENCE D. MCGOVERN

(Principal Financial and Accounting Officer)

ROBERT T. MOLES*

Director

ROBERT T. MOLES

HUMPHREY P. POLANEN*

Director

HUMPHREY P. POLANEN

II-4

Table of Contents

Signature		Title
CHARLES J. TOENISKOETTER*		Director
CHARLES J. TOENISKOETTER		
RANSON W. WEBSTER*		Director
RANSON W. WEBSTER		

* By: /s/ Lawrence D. McGovern
 Lawrence D. McGovern
 Attorney-in-fact

II-5

Table of Contents

Exhibit Index

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Exhibit Number	Description
4.1	Heritage Commerce Corp Restated Articles of Incorporation, as amended (incorporated by reference from the Registrant's Annual Report on Form 10-K filed March 16, 2009)
4.2	Bylaws (incorporated by reference from the Registrant's Annual Report on Form 10-K filed March 16, 2009)
4.3	Certificate of Determination for Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated by reference from Registrant's Current Report on Form 8-K filed November 26, 2008)
4.4	Letter Agreement, dated as of November 21, 2008, between Registrant and the United States Department of the Treasury (incorporated by reference from Registrant's Current Report on Form 8-K filed on November 26, 2008)
4.5	Warrant, dated November 21, 2008, to purchase shares of Common Stock of the Registrant (incorporated by reference to Registrant's Current Report on Form 8-K filed on November 26, 2008 and incorporated herein by reference)
5.1	Opinion of Buchalter Nemer, a professional corporation*
12.1	Calculation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
23.1	Consent of Buchalter Nemer, a professional corporation (included in Exhibit 5.1 to this Registration Statement)*

23.2 Consent of Crowe Horwath LLP

24.1 Power of Attorney*

* Previously filed on December 17, 2008