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TAITRON COMPONENTS INC
Form 10-Q
August 14, 2001

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 June 30, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-25844

TAITRON COMPONENTS INCORPORATED
(Name of Registrant as specified in its charter)

California 95-4249240
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

28040 West Harrison Parkway
Valencia, California 91355-4162
(Address Of Principal Executive Offices)

(661) 257-6060
(Registrant's Telephone Number, Including Area Code)

NONE
(Former Name, Address and Fiscal Year, if Changed Since Last Report)

Check 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 (X) NO ()

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding on July 15, 2001
Class A Common Stock, \$.001 par value	4,906,470
Class B Common Stock, \$.001 par value	762,612

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TAITRON COMPONENTS INCORPORATED

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Condensed Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2001 ----- (Unaudited)	December 2000 -----
Assets		
Current assets:		
Cash and cash equivalents	\$ 239	\$
Trade accounts receivable, net	2,826	4,
Inventory, net	29,635	30,
Prepaid expenses	338	
Deferred income taxes	538	
Other current assets	144	
	-----	-----
Total current assets	33,720	36,
Property and equipment, net	7,006	7,
Other assets	317	
	-----	-----
Total assets	\$ 41,043 =====	\$ 44, =====
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving line of credit	\$ 13,020	\$ 13,
Current portion of long term debt	23	
Trade accounts payable	1,439	2,
Accrued liabilities and other	170	
	-----	-----
Total current liabilities	14,652	17,
Long-term debt, less current portion	400	
	-----	-----
Total liabilities	15,052	17,
	-----	-----
Commitments	--	--
Shareholders' equity:		
Preferred stock, \$.001 par value. Authorized 5,000,000 shares None issued or outstanding	--	--
Class A common stock, \$.001 par value. Authorized 20,000,000 shares; issued and outstanding 4,907,170 and 4,983,975 shares as of June 30, 2001 and December 31, 2000, respectively	5	
Class B common stock, \$.001 par value. Authorized, issued and outstanding 762,612, shares as of June 30, 2001 and December 31, 2000	1	
Additional paid-in capital	10,858	11,
Accumulated comprehensive income	(51)	
Retained earnings	15,178	15,
	-----	-----
Total shareholders' equity	25,991	26,
	-----	-----

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Total liabilities and shareholders' equity \$ 41,043 \$ 44,
===== =====

See accompanying notes to condensed consolidated financial statements.

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Taitron Components Incorporated

Condensed Consolidated Statements of Operations
(Dollars in thousands, except per share amounts)

	Three months ended June 30, 2001	2000	Six months ended Ju 2001	(Un
	----- (Unaudited)	----- (Unaudited)	----- (Unaudited)	----- (Un
Net sales	\$ 4,152	\$ 8,826	\$ 9,676	\$
Cost of goods sold	2,916	5,998	6,773	
Gross profit	1,236	2,828	2,903	
Selling, general and administrative expenses	1,482	1,712	3,017	
Operating earnings (loss)	(246)	1,116	(114)	
Interest expense, net	199	216	446	
Other (income), net	(36)	(22)	(53)	
Earnings (loss) before income taxes	(409)	922	(507)	
Income tax provision (benefit)	(45)	373	(69)	
Net earnings (loss)	\$ (364)	\$ 549	(438)	
Earnings (loss) per share				
Basic	\$ (.06)	\$.09	(.08)	
Diluted	\$ (.06)	\$.09	(.08)	
Weighted average shares outstanding				
Basic	5,685,115	5,810,541	5,703,011	5
Diluted	5,685,115	6,143,128	5,703,011	6

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See accompanying notes to condensed consolidated financial statements.

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Taitron Components Incorporated Condensed Consolidated Statements of Cash Flows (Dollars in thousands)

	Six months ended June	
	2001	2000
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net earnings (loss)	\$ (438)	\$ 986
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	279	235
Gain on sale of assets	(7)	--
Deferred income taxes	156	84
Changes in Assets and Liabilities:		
Trade accounts receivable	1,983	(987)
Inventory	974	104
Prepaid expenses	17	112
Other current assets	107	(40)
Other assets	(30)	(76)
Trade accounts payable	(1,056)	1,623
Accrued and other liabilities	(732)	260
Total adjustments	1,691	1,315
Net cash provided by operating activities	1,253	2,301
Cash flows from investing activities:		
Acquisitions of property and equipment	(80)	(893)
Proceeds from sale of assets	7	--
Net cash used in investing activities	(73)	(893)
Cash flows from financing activities:		
Borrowings on long term debt	3,225	4,415
Payments on long term debt	(4,146)	(5,692)
Repurchase of Class A Common Stock	(246)	(261)
Exercise of stock options	42	27
Net cash used in financing activities	(1,125)	(1,511)
Impact of changes in exchange rates on cash	(6)	(33)
Net increase (decrease) in cash and cash equivalents	49	(136)

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Cash and cash equivalents, beginning of period	190	274
	-----	-----
Cash and cash equivalents, end of period	\$ 239	\$ 138
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of capitalized interest of none and \$28 in 2001 and 2000, respectively)	\$ 486	\$ 544
	=====	=====
Cash paid for income taxes	\$ 309	\$ 211
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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Taitron Components Incorporated

Notes to Condensed Consolidated Financial Statements

As of and for the quarterly period ending June 30, 2001
(All amounts are unaudited, except for the balance sheet
as of December 31, 1999)

(1) Basis of Presentation

The condensed consolidated financial information furnished herein is unaudited and, in the opinion of management, includes all adjustments (consisting of normal recurring adjustments and accruals) in conformity with the accounting principles reflected in the financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2000. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. The unaudited condensed consolidated financial statements and notes should, therefore, be read in conjunction with the financial statements and notes thereto in the Annual Report on Form 10-K for the year ended December 31, 2000.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiary. All significant intercompany transactions have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized upon shipment of the merchandise. Reserves for sales allowances and customer returns are established based upon historical

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experience and management's estimates as shipments are made. Sales returns for the quarters ended June 30, 2001 and 2000 aggregated to \$79,000 and \$102,000, respectively and for the six months ended June 30, 2001 and 2000 aggregated to \$191,000 and \$245,000, respectively.

Allowance for Sales Returns and Doubtful Accounts

The allowance for sales returns and doubtful accounts at June 30, 2001 and December 31, 2000 aggregated \$95,000 and \$120,000, respectively.

Inventory

Inventory, consisting principally of products for resale, is stated at the lower of cost or market, using the first-in, first-out method. The value presented is net of valuation allowances of \$1,297,000 and \$1,326,000 at June 30, 2001 and December 31, 2000, respectively.

Net Earnings (Loss) Per Share

Common equivalent shares are excluded from the computation of diluted earnings (loss) per share for the three month period ended June 30, 2001 and for the six month period ended June 30, 2001, as their effect is anti-dilutive.

Reclassification

Certain amounts in the 2000 financial statements have been reclassified to conform with the current 2001 financial statement presentation.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth, for the periods indicated, certain operating amounts and ratios as a percentage of net sales.

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2001	2000	2001	2000
	(Unaudited) (Dollars in thousands)	(Unaudited) (Dollars in thousands)	(Unaudited) (Dollars in thousands)	(Unaudited) (Dollars in thousands)
Net sales	\$ 4,152	\$ 8,826	\$ 9,676	\$17,174
Cost of goods sold	2,916	5,998	6,773	11,784
Gross profit	1,236	2,828	2,903	5,390
% of net sales	29.8%	32.0%	30.0%	31.4%
Selling, general and administrative expenses	1,482	1,712	3,017	3,336
% of net sales	35.7%	19.4%	31.2%	19.4%

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Operating earnings (loss)	(246)	1,116	(114)	2,054
% of net sales	(5.9)%	12.6%	(1.2)%	12.0
Interest expense, net	199	216	446	416
% of net sales	4.8%	2.4%	4.6%	2.4
Net earnings (loss)	\$ (364)	\$ 549	\$ (438)	\$ 986
% of net sales	(8.8)%	6.2%	(4.5)%	5.7

Three month Period Ended June 30, 2001 Compared To The Three month Period Ended June 30, 2000.

Net sales for the three months ended June 30, 2001 were \$4,152,000, compared with net sales for the three months ended June 30, 2000 of \$8,826,000, a decrease of \$4,674,000 or 53%. The decrease is primarily due to an industry wide decrease in demand for discrete semiconductors. Passive component sales decreased by \$802,000 during the quarter ended June 30, 2001 and export sales decreased to \$367,000 from \$705,000, comparing the same periods. The average unit selling price increased to 2.3 cents for the current period from 1.9 cents during the same period last year.

Cost of goods sold for the quarter ended June 30, 2001 decreased to \$2,916,000 from \$5,998,000 for the same period last year, a decrease of 51.4% or \$3,082,000. Consistent with the decrease in net sales, cost of goods sold decreased, however at a slower rate, resulting in gross profits decreasing as a percentage of net sales to 29.8% for the quarter ended June 30, 2001 from 32% for the same period last year. Gross profits decreased by \$1,592,000 to \$1,236,000 for the quarter ended June 30, 2001 from \$2,828,000 for the same period in 2000.

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Selling, general and administrative ("SG&A") expenses decreased by \$230,000 or 13.4% for the quarter period ended June 30, 2001 compared to the same period of 2000. The decrease is primarily attributable to reducing personnel-related expenses and commissions paid to independent sales representatives resulting from lower net sales. These costs, as a percentage of net sales, increased to 35.7% for the three months ended June 30, 2001 as compared to 19.4% for the three months ended June 30, 2000, which was primarily attributable to the overall decrease in net sales.

Operating loss was \$246,000 for the quarter ended June 30, 2001 as compared to operating earnings of \$1,116,000 for the same period ended June 30, 2000. Operating earnings decreased primarily due to the decrease in net sales, as discussed above.

Interest expense, net of interest income for the quarter ended June 30, 2001 decreased by \$17,000 compared to the same period last year. The decrease is primarily due to lower effective borrowing rates incurred during the current quarter at 6%, when compared to 7.8% for the same period last year.

Income tax benefit was \$45,000 during the quarter ended June 30, 2001, as compared to income tax expense of \$373,000 for the same period in 2000. The

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change is a direct result of the Company recording operating losses during the quarter ended June 30, 2001 as compared to operating earnings during the same period last year.

Net loss was \$364,000 for the quarter ended June 30, 2001 as compared with net earnings of \$549,000 for the same period last year, resulting from the reasons discussed above.

Six month Period Ended June 30, 2001 Compared To The Six month Period Ended June 30, 2000.

Net sales for the six months ended June 30, 2001 were \$9,676,000 compared with net sales for the six months ended June 30, 2000 of \$17,174,000, a decrease of \$7,498,000 or 43.7%. The decrease is primarily due to an industry wide decrease in demand for discrete semiconductors. Passive component sales decreased by \$1,250,000 during the six months ended June 30, 2001 and export sales decreased to \$1,053,000 from \$1,423,000, comparing the same periods. The average unit selling price increased to 2.2 cents for the current six month period from 2.0 cents during the same period last year.

Cost of goods sold decreased by \$5,011,000 to \$6,773,000 for the six months ended June 30, 2001, a decrease of 42.5% from the same period in 2000. Consistent with the decrease in net sales, cost of goods sold decreased, however at a slower rate, resulting in gross profits decreasing as a percentage of net sales to 30% for the first six months of this year from 31.4% for the same period last year. Gross profits decreased by \$2,487,000 to \$2,903,000 for the six months ended June 30, 2001 from \$5,390,000 for the same period in 2000.

SG&A expenses decreased by \$319,000 or 9.6% for the six months ended June 30, 2001 compared to the same period in 2000. The decrease is primarily attributable to reducing personnel-related expenses and commissions paid to independent sales representatives resulting from lower net sales. SG&A expenses, as a percentage of net sales, increased to 31.2% for the six months ended June 30, 2001 from 19.4% for the same period in 2000, due from the overall decrease in net sales.

Operating loss was \$114,000 for the six months ended June 30, 2001 as compared to operating earnings of \$2,054,000 for the same period ended June 30, 2000. Operating earnings decreased primarily due to the decrease in net sales, as discussed above.

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Interest expense, net of interest income for the six months ended June 30, 2001 increased by \$30,000 compared to the six months ended June 30, 2000. The increase is due to higher average borrowing levels as compared to the same period last year, partially offset by lower effective borrowing interest rates incurred during the six month period of 6.6%, compared to 7.7% for the same period last year.

Income tax benefit was \$69,000 in the current six month period ended June 30, 2001, as compared to income tax expense of \$684,000 for the same period in 2000. The change is a direct result of the Company recording operating losses during the six months ended June 30, 2001 as compared to operating earnings during the same period last year.

Net loss was \$438,000 for the six months ended June 30, 2001 compared to net earnings of \$986,000 for the same period in 2000, a decrease of \$1,424,000

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resulting from the same reasons discussed above.

Supply and Demand Issues

The demand for discrete semiconductors in the U.S. market decreased from 1996 through the middle of 1999. Since then until late 2000, demand had increased as a result of industry wide shortages creating significant price increases. However, the industry wide shortage began to diminish towards the end of 2000 with economic conditions worsening resulting in weaker demand in 2001.

The Company's core strategy is to maintain a substantial inventory of discrete semiconductors purchased at prices generally lower than those commonly available to its competitors. This strategy allows the Company to fill customer orders immediately from stock held in inventory. During 2000, the Company took advantage of the strong demand in the discrete semiconductor market, as such, inventory levels increased throughout the year to \$30,609,000 at December 31, 2000. Since demand started to weaken towards the end of 2000 and continued to be weak through the end of June 30, 2001, the Company expects to continue lowering inventory balances throughout 2001. There are no assurances that demand in the discrete semiconductor market will increase and that market conditions will improve in 2001.

Readers are cautioned that the foregoing statements are forward looking and are necessarily speculative. There can be no guarantee that a recovery in the discrete semiconductor market will take place. Also, if prices of components held in our inventory decline or if new technology is developed that displaces products distributed by us and held in inventory, our business could be materially adversely affected. See "-Cautionary Statement Regarding Forward Looking Information".

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Liquidity and Capital Resources

We have satisfied our liquidity requirements principally through cash generated from operations and short-term commercial loans. A summary of our cash flows resulting from our operating, investing and financing activities for the six months ended June 30, 2001 and 2000 are as follows:

(Dollars in thousands)	Six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
Operating activities.....	\$ 1,253	\$ 2,301
Investing activities.....	(73)	(893)
Financing activities.....	(1,125)	(1,511)

Cash flows provided by operating activities decreased to \$1,253,000 during the six months ended June 30, 2001, as compared to \$2,301,000 during the six months ended June 30, 2000. The change is primarily due to the overall decline in business and net sales which caused a decrease in net income by \$1,424,000 to a net loss of \$438,000. Also, accounts payable declined by \$1,056,000 and accrued and other liabilities declined by \$732,000 during the first six months of 2001, as compared to an increase of \$1,623,000 and \$260,000, respectively, during the same period last year contributing to the overall decrease in operating cash flow. Conversely, the overall decrease in operating cash flow was partially offset by a decrease in accounts receivable of \$1,983,000 and a

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decrease in inventory of \$974,000, again caused by the decrease in overall business and net sales.

Cash flows used in investing activities was \$73,000 during the six months ended June 30, 2001 compared to \$893,000 during the six months ended June 30, 2000. The decrease is primarily due to the completion of construction in December 2000 of interior improvements to our new 55,000 square foot warehouse and headquarters.

Cash flows used in financing activities decreased to \$1,125,000 from \$1,511,000 during the six months ended June 30, 2001, as compared to the same period in 2000, primarily due to lower net re-payments to our bank revolving line of credit during the current period in 2001, as compared to the same period in 2000.

We believe that funds generated from operations and our bank revolving lines of credit will be sufficient to finance our working capital and capital expenditure requirements for the foreseeable future.

As of the date of this Report, we had no commitments for other equity or debt financing or other capital expenditures.

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Cautionary Statement Regarding Forward Looking Information

Several of the matters discussed in this document contain forward looking statements that involve risks and uncertainties. Such forward looking statements are usually denoted by words or phrases such as "believes," "expects," "projects," "estimates," "anticipates," "will likely result," or similar expressions. We wish to caution readers that all forward looking statements are necessarily speculative and not to place undue reliance on such forward looking statements, which speak only as of the date made, and to advise readers that actual results could vary due to a variety of risks and uncertainties. Factors associated with the forward looking statements that could cause the forward looking statements to be inaccurate and could otherwise impact our future results are set forth in detail in our most recent annual report on Form 10-K. In addition to the other information contained in this document, readers should carefully consider the information contained in our Form 10-K for the year ended December 31, 2000 under the heading "Cautionary Statements and Risk Factors."

Year 2000

In 1999, we completed our remediation and testing of our systems. Because of those planning and implementation efforts, we experienced no significant disruptions in critical information technology and non-information technology systems and those systems have successfully responded to the Year 2000 date change. We did not incur any significant expenses during 1999 in connection with remediating our systems. We are not aware of any material problems resulting from Year 2000 issues, either with our products, internal systems, or the products and services of our third parties. We will continue to monitor our critical computer applications and those of our suppliers and vendors throughout the year 2001 to ensure any latent Year 2000 matters arising are addressed promptly.

PART II. OTHER INFORMATION

Item 1. through Item 5.

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Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAITRON COMPONENTS INCORPORATED

Date: August 9, 2001

By: /s/ Stewart Wang

Stewart Wang
Chief Executive Officer
and Director

Date: August 9, 2001

By: /s/ Steven H. Dong

Steven H. Dong
Chief Financial Officer
(Principal Accounting Officer)

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