

Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

TAITRON COMPONENTS INC  
Form 10QSB  
August 14, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-25844

TAITRON COMPONENTS INCORPORATED  
(Exact name of small business issuer as specified in its charter)

California  
(State or other jurisdiction of  
incorporation or organization)

95-4249240  
(I.R.S. Employer  
Identification No.)

28040 West Harrison Parkway, Valencia, California 91355-4162  
(Address of principal executive offices)

(661) 257-6060  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Class	Outstanding on July 31, 2007
Class A common stock, \$.001 par value	4,775,144
Class B common stock, \$.001 par value	762,612

Transitional Small Business Disclosure Format: Yes  No

PART I - FINANCIAL INFORMATION  
Item 1. Financial Statements

TAITRON COMPONENTS INCORPORATED  
Condensed Consolidated Balance Sheet  
(Dollars in Thousands)

Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

Assets

Current assets:

Cash and cash equivalents  
Trade accounts receivable, net  
Inventory, net  
Prepaid expenses and other current assets

Total current assets

Property and equipment, net

Other assets

Total assets

Liabilities and Shareholders' Equity

Current liabilities:

Trade accounts payable  
Accrued liabilities and other  
Current portion of long-term debt

Total current liabilities

Long-term debt, less current portion (Note 3)

Total liabilities

Commitments and contingencies (Note 4)

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 4,775,144 shares.  
Class B common stock, \$.001 par value. Authorized, issued and outstanding  
762,612 shares.  
Additional paid-in capital  
Accumulated other comprehensive income, net of tax  
Retained earnings

Total shareholders' equity

Total liabilities and shareholders' equity

See accompanying notes to condensed consolidated financial statements.

Page 2

TAITRON COMPONENTS INCORPORATED

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

Three months ended June 30,  
2007 2006

Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

	----- (Unaudited)	----- (Unaudited)
Net sales	\$ 1,623	\$ 2,996
Cost of goods sold	1,171	2,133
	-----	-----
Gross profit	452	863
Selling, general and administrative expenses	703	704
	-----	-----
(Loss) income from operations	(251)	159
Interest income, net	13	22
Other income (expense), net	4	(19)
	-----	-----
(Loss) income before income taxes	(234)	162
Income tax provision	(1)	--
	-----	-----
Net (loss) income	\$ (235)	\$ 162
	=====	=====
Other comprehensive (loss) income:		
Foreign currency translation adjustment	--	11
	-----	-----
Comprehensive (loss) income	\$ (235)	\$ 173
	=====	=====
(Loss) income per share		
Basic	\$ (.04)	\$ .03
	=====	=====
Diluted	\$ (.04)	\$ .03
	=====	=====
Weighted average common shares outstanding		
Basic	5,536,089	5,479,423
	=====	=====
Diluted	5,536,089	5,918,423
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Page 3

TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Statements of Cash Flows  
(Dollars in thousands)

Cash flows from operating activities:  
Net loss

Adjustments to reconcile net loss to net cash provided by operating activities:

Depreciation and amortization

Provision for sales returns and doubtful accounts

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

Stock-based compensation

Changes in assets and liabilities:

Trade accounts receivable  
Inventory, net  
Prepaid expenses and other current assets  
Other assets  
Trade accounts payable  
Accrued liabilities and other

Total adjustments

Net cash (used in) provided by operating activities

Cash flows from investing activities:

Acquisitions of property and equipment  
Purchase of long-term investments

Net cash used in investing activities

Cash flows from financing activities:

Payments on notes payable  
Proceeds from exercise of stock options and issuance of stock  
Payments on dividends declared

Net cash (used in) provided by financing activities

Impact of exchange rate changes on cash

Net (decrease) increase in cash and cash equivalents

Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

Supplemental disclosure of cash flow information:

Cash paid for interest

Cash paid for income taxes

See accompanying notes to condensed consolidated financial statements.

Page 4

TAITRON COMPONENTS INCORPORATED

Notes to Condensed Consolidated Financial Statements

June 30, 2007

(All amounts are unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Taitron Components Incorporated ("the Company") were prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments, consisting of normal recurring accruals and adjustments, which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position and results of operations at and for the periods presented. Such financial statements do not include all the information or

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

notes necessary for a complete presentation. Therefore, they should be read in conjunction with the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006, and the notes thereto, which include significant accounting policies and estimates. The results of operations for the interim periods are not necessarily indicative of results for the full year.

### Note 2 - Summary of Significant Accounting Policies and Estimates

#### Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its 60% majority-owned subsidiary, Taitron Components Mexico SA de CV. All significant intercompany transactions and balances have been eliminated in consolidation.

#### Revenue Recognition

Revenue is typically recognized upon shipment of merchandise and sales are recorded net of discounts, rebates, and returns. Reserves for sales allowances and customer returns are established based upon historical experience and management's estimates as shipments are made. Sales returns for the quarters ended June 30, 2007 and 2006 were \$119,000 and \$81,000, respectively, and for the six months ended June 30, 2007 and 2006 aggregated \$136,000 and \$96,000, respectively.

#### Allowance for Sales Returns and Doubtful Accounts

On a case-by-case basis, the Company accepts returns of products from its customers, without restocking charges, when they can demonstrate an acceptable cause for the return. Requests by a distributor to return products purchased for its own inventory generally are not included under this policy. The Company will, on a case-by-case basis, accept returns of products upon payment of a restocking fee, which is generally 15% to 30% of the net sales price. The Company will not accept returns of any products that were special-ordered by a customer or that otherwise are not generally included in inventory. The allowance for sales returns and doubtful accounts at June 30, 2007 aggregated \$88,000.

#### Inventory

Inventory, consisting principally of products held for resale, is recorded at the lower of cost (determined using the first in-first out method) or estimated market value. Inventory is presented net of valuation allowances of \$1,451,000 at June 30, 2007.

Page 5

#### Income Taxes

In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN48), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. A tax position that meet the "more-likely-than-not" criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN48 applies to all tax positions accounted for under SFAS No. 109, Accounting for Income Taxes. FIN48 is effective for fiscal years beginning after December 15, 2006.

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

The Company adopted FIN48 as of January 1, 2007, the beginning of its current fiscal year. Based on the Company's preliminary analysis, the Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position including its effective tax rate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 and the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. In addition, the Company has not recorded any accrued interest and penalties related to income tax. It is the Company's policy to classify interest and penalties related to income tax as income taxes in its financial statements.

The following tax years that remain subject to examination by major tax jurisdictions are as follows: Federal - 2004, 2005 and 2006; and California (State) - 2003, 2004, 2005 and 2006.

However, the Company has certain tax attribute carry forwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

### Per Share Data

Basic earnings per share data are based upon the weighted average number of common shares outstanding. Diluted earnings per share data are based upon the weighted average number of common shares outstanding, plus the number of common shares potentially issuable for dilutive securities such as stock options and warrants. The weighted average number of common shares outstanding for each of the three and six month periods ended June 30, 2007 and 2006 is set forth in the following table:

	Three months ended June 30	
	2007	2006
Basic weighted average shares outstanding	5,536,089	5,479,423
Potentially dilutive stock options	344,000	439,000
Anti-dilutive stock options due to net loss in period	(344,000)	--
Diluted weighted average shares outstanding	5,536,089	5,918,423

### Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. These estimates have a significant impact on the Company's valuation and reserve accounts relating to the allowance for sales returns, doubtful accounts, inventory reserves and deferred income taxes. Actual results could differ from these estimates.

Stock-Based Compensation

In September 2006, the Company' 2005 Stock Incentive Plan (the "2005 Plan") was approved by state regulators, which authorizes the issuance of up to 1,000,000 shares pursuant to options or awards granted under the plan.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period.

Stock option activity during the six months ended June 30, 2007 is as follows:

	Number of Shares -----	Weighted Average Exercise Price -----	Weighted Average Years Remaining Contractual Term -----	Aggr Intr Va -----
Outstanding at December 31, 2006	502,000	\$1.82	5.28	309
Exercised	(58,333)	1.11	--	
Forfeited	(18,667)	2.94	--	
	-----			
Outstanding at June 30, 2007	425,000	1.87	4.86	312
	=====			
Exercisable at June 30, 2007	335,999	1.74	3.64	292
	=====			

At June 30, 2007, the range of individual outstanding weighted average exercise prices was \$1.70 to \$2.45.

Note 3 - Note Payable

	June 30, 2007 -----
Bank loan payable in fixed monthly principal installments of \$7,381, plus interest at the rate of one year LIBOR + 1.8% per annum, due September 20, 2013.	554,000
Less current portion	(89,000)
	-----
Long-term debt, less current portion	465,000
	=====

On September 21, 2006, the Company borrowed \$620,000 in connection with its deposit on a real estate purchase contract related to the acquisition of approximately 4,500 square feet of office space (consisting of 2 separate units on the same floor) in Shanghai, China with a total purchase price of \$1,240,000. The overall office building project is substantially complete, while interior decorative construction is estimated to be

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

completed in September 2007. The investment will be used as rental property for lease to others and for the Company's project design and engineering center.

### Note 4 - Commitments and Contingencies

On July 1, 2006, the European Union ("EU") directive relating to the Restriction of Certain Hazardous Substance ("RoHS") restricted the distribution of products within the EU containing certain substances, including lead. Further, many of our suppliers are not yet supplying RoHS compliant products. The legislation is effective and some of our inventory has become obsolete. Management has estimated the impact of the legislation and have written down or reserved for related inventories based on amounts expected to be realized given all available current information. Actual amounts realized from the ultimate disposition of related inventories could be different from those estimated.

Page 7

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the related notes, appearing in Item 1 of this report as well as our most recent annual report on Form 10-KSB for the year ended December 31, 2006. Also, several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Forward-looking statements usually are 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 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-KSB. In addition to the other information contained in this document, readers should carefully consider the information contained in our most recent annual report on Form 10-KSB under the heading "Cautionary Statements and Risk Factors."

References to "Taitron," "the Company," "we," "our" and "us" refer to Taitron Components Incorporated and its majority-owned subsidiary, unless the context otherwise requires.

#### Critical Accounting Policies and Estimates

**Use Of Estimates** - Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare its condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. These estimates have a significant impact on the Company's valuation and reserve accounts relating to the allowance for sales returns, doubtful accounts, inventory reserves and deferred income taxes. Actual results could differ from these estimates.

**Revenue Recognition** - Revenue is recognized upon shipment of the merchandise, which is when legal transfer of title occurs. Reserves for sales allowances and customer returns are established based upon historical experience and our estimates of future returns. Sales returns for the quarters ended June 30, 2007 and 2006 were \$119,000 and \$81,000, respectively, and for the six



## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

months ended June 30, 2007 and 2006 aggregated \$136,000 and \$96,000, respectively. The allowance for sales returns and doubtful accounts at June 30, 2007 aggregated \$88,000.

Inventory - Inventory, consisting principally of products held for resale, is recorded at the lower of cost (determined using the first in-first out method) or estimated market value. We had inventory balances in the amount of \$15,311,000 at June 30, 2007, which is presented net of valuation allowances of \$1,451,000. We evaluate inventories to identify excess, high-cost, slow-moving or other factors rendering inventories as unmarketable at normal profit margins. Due to the large number of transactions and the complexity of managing and maintaining a large inventory of product offerings, estimates are made regarding adjustments to the cost of inventories. Based on our assumptions about future demand and market conditions, inventories are carried at the lower of cost or estimated market value. If our assumptions about future demand change, or market conditions are less favorable than those projected, additional write-downs of inventories may be required. In any case, actual amounts could be different from those estimated.

Impact of Governmental Regulation - Our worldwide operations are subject to local laws and regulations. As such, of particular interest is the European Union ("EU") directive relating to the Restriction of Certain Hazardous Substance ("RoHS"). On July 1, 2006, this directive restricted the distribution of products within the EU containing certain substances, including lead. At the present time, much of our inventory contains substances prohibited by the RoHS directive. Further, many of our suppliers are not yet supplying RoHS compliant products. The legislation is effective and some of our inventory has become obsolete. Management has estimated the impact of the legislation and have written down or reserved for related inventories based on amounts expected to be realized given all available current information. Actual amounts realized from the ultimate disposition of related inventories could be different from those estimated.

Page 8

Deferred Taxes - In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN48), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. A tax position that meet the "more-likely-than-not" criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN48 applies to all tax positions accounted for under SFAS No. 109, Accounting for Income Taxes. FIN48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN48 as of January 1, 2007, the beginning of its current fiscal year. Based on the Company's preliminary analysis, the Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position including its effective tax rate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 and the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. In addition, the Company has not recorded any accrued interest and penalties related to income tax. It is the Company's policy to classify interest and penalties related to income tax as income taxes in its financial statements. The following tax years that remain subject to examination by major tax jurisdictions are as follows: Federal - 2004, 2005 and 2006; and California (State) - 2003, 2004, 2005 and 2006.

Selected Recent Accounting Policies

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

In February 2007, the Financial Accounting Standard Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which creates an alternative measurement method for certain financial assets and liabilities. SFAS 159 permits fair value to be used for both the initial and subsequent measurements on a contract-by-contract election, with changes in fair value to be recognized in earnings as those changes occur. This election is referred to as the "fair value option." SFAS 159 also requires additional disclosures to compensate for the lack of comparability that will arise from the use of the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted as of the beginning of a company's fiscal year, provided the company has not yet issued financial statements for that fiscal year. The Company is currently evaluating the impact the adoption of SFAS 159 will have on its financial position and results of operations.

### Overview

We distribute discrete semiconductors, optoelectronic devices and passive components to other electronic distributors, CEMs and OEMs, who incorporate them in their products and supply ODM products for our customer's multi-year turn-key projects.

We continue to be impacted by the severe decline in demand for discrete semiconductors from the U.S. market, which began in late 2000. As a result, we have experienced declining sales in such components since early 2001. In response to this declining demand, we placed emphasis on increasing our sales to existing customers through further expansion of the number of different types of discrete components and other integrated circuits in our inventory and by attracting additional contract electronic manufacturers (CEMs), original equipment manufacturers (OEMs) and electronics distributor customers. In addition, over the last three years we have developed our ODM service capabilities and added products developed through partnership agreements with offshore solution providers (OEMs and CEMs). Looking forward, we plan to offer commodity Integrated Circuits (ICs) as an extension of current discrete semiconductor lines in 2007.

Our core strategy of electronic components fulfillment, however, consists of carrying a substantial quantity and variety of products in inventory to meet the rapid delivery requirements of our customers. This strategy allows us to fill customer orders immediately from stock on hand. Although we believe better market conditions may return, we are focused on lowering our inventory balances and increasing our cash holdings. Our long-term strategy is to rely not only on our core strategy of component fulfillment service, but also the value-added engineering and turn-key services. In accordance with Generally Accepted Accounting Principles, we classify inventory as a current asset. However, if all or a substantial portion of the inventory was required to be immediately liquidated, the inventory would not be as readily marketable or liquid as other items included or classified as a current asset, such as cash. We cannot assure you that demand in the discrete semiconductor market will increase and that market conditions will improve. Therefore, it is possible that further declines in our carrying values of inventory may result.

In accordance with Generally Accepted Accounting Principles, we have classified inventory as a current asset in our June 30, 2007, consolidated financial statements representing approximately 85% of current assets and 63% of total assets. However, if all or a substantial portion of the inventory was required to be immediately liquidated, the inventory would not be as readily marketable or liquid as other items included or classified as a current asset,

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

such as cash. We cannot assure you that demand in the discrete semiconductor market will increase and that market conditions will improve. Therefore, it is possible that further declines in our carrying values of inventory may result.

Since the beginning of 2001, our gross profit margins in general have been stable. Our gross profit margins are subject to a number of factors, including product demand, a strong U.S. dollar, our ability to purchase inventory at favorable prices and our sales product mix.

### Results of Operations

Second quarter of 2007 versus Second quarter of 2006.

Net sales in the second quarter of 2007 totaled \$1,623,000 versus \$2,996,000 in the comparable period for 2006, a decrease of \$1,373,000 or 45.8% over the same period last year. The overall decline came from our ODM Product sales decreasing by \$980,000, when comparing the second quarter of 2007 over the same period last year.

Gross profit for the second quarter of 2007 was \$452,000 versus \$863,000 in the comparable period for 2006, and gross margin percentage of net sales was 27.9% in the second quarter of 2007 versus 28.8% in the comparable period for 2006.

Selling, general and administrative ("SG&A") expenses in the second quarter of 2007 totaled \$703,000 versus \$704,000 in the comparable period for 2006. Effective January 1, 2006, we adopted SFAS 123(R) and such had a \$7,000 financial impact to our SG&A for the second quarter of 2007, as compared to a minimal financial impact for the same period last year.

Interest income, net of interest expense, was \$13,000 for the second quarter of 2007 versus \$22,000 in the comparable period for 2006, primarily due to \$9,000 of interest expense incurred related to our borrowing (see Note 3) for the second quarter of 2007, when comparing \$0 in the same period last year.

Income tax provision was \$1,000 for the second quarter of 2007 and \$0 in the comparable period for 2006, as we do not expect significant taxable income for fiscal year 2007.

Net loss was \$235,000 for the second quarter of 2007 versus net income of \$162,000 in the comparable period for 2006, a decrease of \$397,000.

Six Months Ended June 30, 2007 versus Six Months Ended June 30, 2006.

Net sales in the six months ended June 30, 2007 was \$3,478,000 versus \$4,985,000 in the comparable period for 2006, a decrease of \$1,507,000 or 30.2% over the same period last year. The sales decrease was attributed to decline in our ODM products by \$1,120,000 comparing the six months ended June 30, 2007 over the same period last year.

Gross profit for the six months ended June 30, 2007 was \$952,000 versus \$1,343,000 in the comparable period for 2006, and gross margin percentage of net sales was approximately 27% for both periods. The dollar decrease was primarily attributed to the impact from our ODM products.

Selling, general and administrative ("SG&A") expenses in the six months ended June 30, 2007 totaled \$1,394,000 versus \$1,340,000 in the comparable period for 2006. The increase of \$54,000 was primarily attributable to personnel related expenses from our engineering center in China. Effective January 1, 2006, we adopted SFAS 123(R) and such had a \$14,000 financial impact to our SG&A for the six months ended June 30, 2007 versus \$10,000 in the comparable period for 2006.

# Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

Page 10

Interest income, net of interest expense, was \$34,000 for the six months ended June 30, 2007 versus \$37,000 in the comparable period for 2006.

Income tax provision was \$3,000 for the six months ended June 30, 2007 versus \$4,000 in the comparable period for 2006.

Net loss was \$425,000 for the six months ended June 30, 2007 versus \$0 in the comparable period for 2006, an increase of \$425,000 resulting from the reasons discussed above.

## 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, 2007 and 2006 are as follows:

(Dollars in thousands)	Six months ended June 30,	
	2007	2006
	(Unaudited)	(Unaudited)
Operating activities.....	(697,000)	180,000
Investing activities.....	(307,000)	(31,000)
Financing activities.....	(531,000)	24,000

Cash used in operating activities for the six months ended June 30, 2007 was \$697,000 versus \$180,000 cash provided by during the comparable period in 2006. The decrease was primarily attributed to receivables increasing by \$239,000 for the six months ended June 30, 2007 and payables decreasing by \$453,000, as compared to the comparable period in 2006.

Cash used in investing activities for the six months ended June 30, 2007 was \$307,000 and 2006 was \$31,000, respectively. The increase came from our \$305,000 investment in the preferred stock of Zowie Technology Corporation in the six months ended June 30, 2007.

Cash used in financing activities for the six months ended June 30, 2007 was \$531,000 versus \$24,000 cash provided by, during the comparable period in 2006. The increase is for our cash dividend payment of \$0.10 per share, or \$552,000 paid on January 31, 2007, to shareholders of record at the close of business on January 22, 2007.

Inventory is included in current assets; however, it will take over one year for the inventory to turn. Hence, inventory would not be as readily marketable or liquid as other items included in current assets, such as cash.

We believe that funds generated from operations, in addition to existing cash balances are likely to be sufficient to finance our working capital and capital expenditure requirements for the foreseeable future. If these funds are not sufficient, we may secure new sources of short-term commercial loans, asset-based lending on accounts receivables or issue debt or equity securities.

## Item 3. Controls and Procedures.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure

## Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the reporting period covered by this quarterly report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures are effective such that material information required to be disclosed by the Company (including its consolidated subsidiary) in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms relating to the Company.

Page 11

During the quarterly period covered by this report, there have been no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

None.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no issuances or sales of our securities by us during the quarter ended June 30, 2007 that were not registered under the Securities Act.

#### Item 3. Defaults Upon Senior Securities.

None.

#### Item 4. Submission of Matters to a Vote of Security Holders.

None.

#### Item 5. Other Information.

None.

#### Item 6. Exhibits.

- a. Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- b. Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### SIGNATURES

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

TAITRON COMPONENTS INCORPORATED

Date: August 14, 2007

By: /s/ Stewart Wang

-----  
Stewart Wang

Edgar Filing: TAITRON COMPONENTS INC - Form 10QSB

Chief Executive Officer, President,  
Chief Financial Officer and Director  
(Principal Executive, Financial and  
Accounting Officer)

Page 12