

TAITRON COMPONENTS INC  
Form 10QSB  
August 14, 2003

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

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**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, 2003**

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

**Commission File Number 0-25844**

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**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)**

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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

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

<u>Class</u>	<u>Outstanding on July 31, 2003</u>
Class A Common Stock, \$.001 par value	4,886,571
Class B Common Stock, \$.001 par value	762,612
Transitional Small Business Disclosure Format (check one):	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**TAITRON COMPONENTS INCORPORATED**

Condensed Consolidated Balance Sheets

(Dollars in Thousands)

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
	(Unaudited)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 638	\$ 326
Trade accounts receivable, net	1,338	2,009
Income tax receivable		310
Inventory, net	22,653	24,314
Prepaid expenses	198	252
Deferred income taxes	220	220
Other current assets	82	128
<b>Total current assets</b>	<b>25,129</b>	<b>27,559</b>
Property and equipment, net	6,185	6,383
Other assets	175	172
<b>Total assets</b>	<b>\$ 31,489</b>	<b>\$ 34,114</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities:</b>		
Revolving line of credit	\$	\$ 3,935
Current portion of long term debt	943	91
Trade accounts payable	968	1,314
Accrued liabilities and other	206	332
<b>Total current liabilities</b>	<b>2,117</b>	<b>5,672</b>
Long-term debt, less current portion	4,991	3,896
<b>Total liabilities</b>	<b>7,108</b>	<b>9,568</b>
<b>Commitments and contingencies (Notes 3, 4 and 5)</b>		
<b>Shareholders equity:</b>		
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 4,886,571 and 4,945,107 shares as of June 30, 2003 and December 31, 2002, respectively.		
	5	5
	1	1

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Class B common stock, \$.001 par value. Authorized, issued and outstanding 762,612, shares as of June 30, 2003 and December 31, 2002.		
Additional paid-in capital	10,834	10,893
Accumulated other comprehensive loss, net of tax	(55)	(35)
Retained earnings	13,596	13,682
	<u>          </u>	<u>          </u>
Total shareholders equity	24,381	24,546
	<u>          </u>	<u>          </u>
Total liabilities and shareholders equity	\$ 31,489	\$ 34,114
	<u>          </u>	<u>          </u>

See accompanying notes to condensed consolidated financial statements.

**TAITRON COMPONENTS INCORPORATED**  
Condensed Consolidated Statements of Operations  
(Dollars in thousands, except per share amounts)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ 2,324	\$ 3,579	\$ 5,479	\$ 7,285
Cost of goods sold	1,594	2,645	3,782	5,328
Gross profit	730	934	1,697	1,957
Selling, general and administrative expenses	768	1,168	1,617	2,364
Operating (loss) income	(38)	(234)	80	(407)
Interest expense, net	91	107	199	231
Other income, net	(37)	(50)	(33)	(139)
Loss before income taxes	(92)	(291)	(86)	(499)
Income tax provision		452		437
Net loss	\$ (92)	\$ (743)	\$ (86)	\$ (936)
Net loss per share Basic & Diluted	\$ (.02)	\$ (.13)	\$ (.02)	\$ (.17)
Weighted average common shares outstanding Basic & Diluted	5,682,401	5,716,319	5,666,667	5,684,894

See accompanying notes to condensed consolidated financial statements.

**TAITRON COMPONENTS INCORPORATED**  
Condensed Consolidated Statements of Cash Flows  
(Dollars in thousands)

	Six months ended June 30,	
	2003	2002
	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities:</b>		
Net loss	\$ (86)	\$ (936)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation and amortization	212	275
Amortization of debt discount related to options issued with notes payable	7	
Provision for inventory reserves	156	265
Provision for sales returns and doubtful accounts	148	196
Provision for deferred income taxes		528
<b>Changes in assets and liabilities:</b>		
Trade accounts receivable	523	(498)
Income tax receivable	310	50
Inventory	1,505	330
Prepaid expenses and other current assets	100	(49)
Other assets	(3)	118
Trade accounts payable	(346)	845
Accrued liabilities and other	(126)	20
<b>Total adjustments</b>	<b>2,486</b>	<b>2,080</b>
<b>Net cash provided by operating activities</b>	<b>2,400</b>	<b>1,144</b>
<b>Cash flows from investing activities:</b>		
Acquisitions of property and equipment	(14)	(177)
Proceeds from sale of assets		2
<b>Net cash used in investing activities</b>	<b>(14)</b>	<b>(175)</b>
<b>Cash flows from financing activities:</b>		
Borrowings from revolving line of credit		2,190
Payments on revolving line of credit	(3,935)	(3,287)
Borrowings on notes payable	1,955	
Repurchase of Class A Common Stock	(74)	(49)
Proceeds from sale of Class A common stock		119
<b>Net cash used in financing activities</b>	<b>(2,054)</b>	<b>(1,027)</b>
<b>Impact of exchange rate changes on cash</b>	<b>(20)</b>	<b>23</b>

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Net increase (decrease) in cash and cash equivalents	312	(35)
Cash and cash equivalents, beginning of period	326	182
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 638	\$ 147
	<u>          </u>	<u>          </u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 222	\$ 192
	<u>          </u>	<u>          </u>
Cash (refunded) paid for income taxes	\$ (315)	\$ 1
	<u>          </u>	<u>          </u>

See accompanying notes to condensed consolidated financial statements.

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**TAITRON COMPONENTS INCORPORATED**

Notes to Condensed Consolidated Financial Statements  
June 30, 2003 and 2002

(All amounts are unaudited, except for the balance sheet as of December 31, 2002)

**(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 footnotes necessary for a complete presentation and, accordingly, should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002, 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.

**(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 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 experience and management s estimates as shipments are made. Sales returns for the quarters ended June 30, 2003 and 2002 aggregated \$71,000 and \$57,000, respectively and for the six months ended June 30, 2003 and 2002 aggregated to \$117,000 and \$151,000, respectively. The allowance for sales returns and doubtful accounts at June 30, 2003 and December 31, 2002 aggregated \$155,000 and \$135,000, respectively.

**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 \$1,388,000 and \$1,083,000 at June 30, 2003 and December 31, 2002, respectively.

**Deferred Taxes**

The Company reviews the nature of each component of its deferred income taxes for an assessment of future realization. The Company has reserved for a portion of its deferred income tax assets, as management could not determine that it was more likely than not such assets would be realized.

**Net Loss Per Share**

Common equivalent shares of approximately 405,000 and 616,000 for the three month periods ended June 30, 2003 and 2002, respectively, and approximately 419,000 and 615,000 for the six months ended June 30, 2003 and 2002, respectively, are excluded from the computation of diluted loss per share as their effect is anti-dilutive.



## Stock Option Plan

The Company has adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 123 allows companies to choose whether to account for stock-based compensation on a fair value method, or to continue to account for stock-based compensation under the current intrinsic value method as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company has elected to continue to follow the provisions of APB Opinion No. 25. SFAS No. 148 requires interim disclosures regarding the pro forma effects of compensation expense had the Company's 1995 Stock Incentive Plan been determined based on the fair value consistent with SFAS No. 123.

Accordingly, under SFAS No. 123, the Company's net loss and diluted loss per share for the quarter and six months ended June 30, 2003 and June 30, 2002, would have been changed to the pro forma amounts indicated below:

		<b>Three Month Period Ended June 30,</b>		<b>Six Month Period Ended June 30,</b>	
		<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net loss	As reported	\$ (92,000)	\$ (743,000)	\$ (86,000)	\$ (936,000)
	Pro Forma	\$ (81,000)	\$ (736,000)	\$ (64,000)	\$ (922,000)
Diluted loss per share	As reported	\$ (.02)	\$ (.12)	\$ (.01)	\$ (.15)
	Pro Forma	\$ (.01)	\$ (.12)	\$ (.01)	\$ (.15)

At June 30, 2003, the number of options exercisable was 424,500 and weighted average exercise prices of those options were \$2.15.

## 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.

### (3) Revolving Line of Credit

As of June 30, 2003, the Company has completed the repayment of this revolving line of credit facility. This credit facility originally matured on December 31, 2002, with the bank also previously indicating that no further borrowings would be made available.

**(4) Long-Term Debt**

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Long-term debt is summarized as follows:		
Note payable collateralized by real property, due December 31, 2009, bearing an interest rate of 6.875%	\$ 2,594,000	\$ 2,625,000
Subordinated note, due September 30, 2005, bearing an interest rate of 4.75% per annum.	1,000,000	1,000,000
Subordinated note, due September 30, 2003, bearing an interest rate of 7% per annum.	500,000	
Subordinated note, due February 20, 2006, bearing an interest rate of 4.75% per annum.	500,000	
Subordinated note, due June 23, 2006, bearing an interest rate of 7% per annum.	1,000,000	
Note payable collateralized by real property, due December 1, 2013, bearing an interest rate of 6.359% per annum.	375,000	388,000
	<u>5,969,000</u>	<u>4,013,000</u>
Less current maturities	(943,000)	(91,000)
	<u>5,026,000</u>	<u>3,922,000</u>
Less unamortized debt discount	(35,000)	(26,000)
	<u>4,991,000</u>	<u>3,896,000</u>

The subordinated notes of \$1,000,000 bearing interest at 4.75%, \$500,000 bearing interest at 7% and \$1,000,000 bearing interest at 7%, are all due to K.S. Best International Co. Ltd., a company controlled by the brother of the Company's Chief Executive Officer.

In connection with the subordinated notes of \$1,000,000 and \$500,000 bearing interest at 4.75%, the Company issued 100,000 and 50,000 stock options, respectively, with relative estimated fair values of \$29,000 and \$15,000, respectively. Such amounts have been presented as debt discounts and accreted through periodic interest charges through the maturity date of these notes.

**(5) Subsequent Events**

As of August 11, 2003, the Company has closed escrow on the sale of its former office/warehouse facility for \$1,800,000.

The Company received notice that it is not in compliance with The Nasdaq National Market continued listing requirements. Nasdaq is allowing the Company through August 19, 2003 to regain compliance. If the Company cannot demonstrate compliance before that date, Nasdaq staff may notify the Company of a determination to delist the Company's securities. If an initial delisting decision is made by the staff, the Company may appeal the decision as permitted by Nasdaq rules. Nasdaq also stated that the Company may apply to transfer its securities to The Nasdaq SmallCap Market before August 19, 2003. In response to this Nasdaq notification, as of August 7, 2003, the Company plans to apply for listing on the Nasdaq SmallCap Market and retain its ticker symbol of TAIT.

As of the date of this report, the Company has listed for sale its office building facility located in Taipei, Taiwan.

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

*The following 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 the Company's most recent annual report on Form 10-K. Also, 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, 2002 under the heading "Cautionary Statements and Risk Factors."*

### Overview

Taitron Components Incorporated ( "Taitron" or the "Company" ) is a national distributor of electronic components manufactured by others. The Company distributes a wide variety of transistors, diodes and other discrete semiconductors, optoelectronic devices and passive components to other electronic distributors, original equipment manufacturers (OEMs) and to contract electronic manufacturers (CEMs) who incorporate these devices in their products. In order to meet the rapid delivery requirements of its customers, the Company maintains a significant inventory of discrete and passive components. The Company distributes over 13,000 different products manufactured by more than 50 different suppliers.

Discrete semiconductors are basic electronic building blocks. One or more different types of discrete semiconductors generally are found in the electronic or power supply circuitry of such diverse products as automobiles, televisions, radios, telephones, computers, medical equipment, airplanes, industrial robotics and household appliances. The term "discrete" is used to differentiate those single function semiconductor products which are packaged alone, such as transistors or diodes, from those which are "integrated" into microchips and other integrated circuit devices.

The demand for discrete semiconductors in the U.S. market decreased from 1996 through the middle of 1999. From 1999 throughout 2000, demand had increased as a result of industry wide shortages. The industry wide shortage began to diminish towards the end of 2000 and demand through today has drastically declined. This declining demand has primarily resulted from the accelerated trend of moving the production capacity of OEM/CEM customers abroad and the consolidation of CEM customers domestically.

The Company's core strategy includes maintaining a substantial inventory of discrete and passive components 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. Since demand remains weak resulting from an overall economic slowdown and excess product availability, the Company continued to focus on lowering its inventory balances and changing the product mix. As such, inventory levels decreased throughout the current period from \$24,314,000 as of December 31, 2002 to \$22,653,000 as of June 30, 2003, including a non-cash provision of approximately \$156,000 during the current six month period ending June 30, 2003 to increase the Company's inventory reserves. Since demand continued to be weak throughout the current period, the Company expects to continue lowering inventory balances throughout 2003.

In accordance with accounting principles generally accepted in the United States, management has classified 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.

Our gross profit margins in general have been stable or slightly increased mainly because our purchasing price decrease more than offset the selling price erosion in the down market. Our gross profit margins are subject to a number of factors, including product demand, a strong US dollar, manufacturer's price protection programs, our

ability to purchase inventory at favorable prices and our sales product mix, all of which could adversely impact margins. There are no assurances that demand in the discrete semiconductor market will increase and that market conditions will improve. Therefore, its possible that further declines in our carrying values of inventory could result.

*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.*

### **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 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.

**Revenue Recognition** - Revenue is recognized upon shipment of the merchandise. Reserves for sales allowances and customer returns are established based upon historical experience and management's estimates of future returns. Sales returns for the quarters ended June 30, 2003 and 2002 were \$71,000 and \$57,000, respectively and for the six months ended June 30, 2003 and 2002 aggregated to \$117,000 and \$151,000, respectively. The allowance for sales returns and doubtful accounts at June 30, 2003 and December 31, 2002 were \$155,000 and \$135,000, respectively. The Company reviews the actual sales returns and bad debts for its customers and establishes an estimate of future returns and allowance for doubtful accounts.

**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. The Company had inventory balances in the amounts of \$22,653,000 and \$24,314,000 at June 30, 2003 and December 31, 2002, respectively, which are presented net of valuation allowances of \$1,388,000 and \$1,083,000 at June 30, 2003 and December 31, 2002, respectively. The Company evaluates inventories to identify excess, high cost, slow-moving, or other factors rendering inventories as unmarketable at normal profit margins. For inventories supplied under franchise agreements, the Company relies upon its contractual rights to receive compensation for price differences caused by market fluctuations. 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, and/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.

**Deferred Taxes** - The Company reviews the nature of each component of its deferred income taxes for an assessment of future realization. The Company has reserved for a portion of its deferred income tax assets, as management could not determine that it was more likely than not such assets would be realized.

### **Revolving Line of Credit Facility**

As of June 30, 2003, the Company has completed the repayment of this revolving line of credit facility. This credit facility originally matured on December 31, 2002, with the bank also previously indicating that no further borrowings would be made available.

*Results of Operations*

*Three month Period Ended June 30, 2003 Compared To The Three month Period Ended June 30, 2002.*

Net sales for the three months ended June 30, 2003 were \$2,324,000, compared with \$3,579,000 for the same period last year, a decrease of \$1,255,000 or 35.1%. The decrease is primarily due to an industry-wide decrease in demand for discrete and passive and semiconductor components.

Cost of goods sold for the quarter ended June 30, 2003 decreased to \$1,594,000 from \$2,645,000 for the same period last year, a decrease of \$1,051,000 or 39.7%. Consistent with the decrease in net sales, cost of goods sold decreased, however at a faster rate, resulting in gross profit increasing as a percentage of net sales to 31.4% for the quarter ended June 30, 2003 from 26.1% for the same period last year. Gross profit decreased by \$204,000 to \$730,000 for the quarter ended June 30, 2003 from \$934,000 for the same period in 2002. Included with cost of sales are provisions for inventory reserves of \$81,000 and \$75,000 during the quarters ended June 30, 2003 and 2002, respectively.

Selling, general and administrative ( SG&A ) expenses decreased by \$400,000 or 34.2% for the quarter ended June 30, 2003 compared to the same period of 2002. The decrease is primarily attributable to cost cutting measures consistently implemented during the last twelve months. As a result, personnel-related expenses decreased by \$250,000, with no other individual item significantly impacting the change during the quarter ended June 30, 2003. The corresponding average employee base declined by 12 employees, which represents a 28% reduction in overall workforce. As a percentage of net sales, SG&A remained consistently 33% for the three months ended June 30, 2003 and 2002.

Operating losses were \$38,000 for the quarter ended June 30, 2003 as compared to \$234,000 for the same period last year. The decrease in operating losses results from the increase in gross profit margin and from the decrease in SG&A expenses, as discussed above.

Interest expense, net of interest income, for the quarter ended June 30, 2003 decreased by \$16,000 compared to the same period last year. The decrease is primarily due to lower outstanding borrowing levels incurred during the current quarter, when compared to the same period last year.

No income tax provision or benefit was recorded during the quarter ended June 30, 2003, as compared to an income tax provision of \$452,000 for the same period last year.

Net loss was \$92,000 for the quarter ended June 30, 2003 as compared to a net loss of \$743,000 for the same period last year.

*Six month Period Ended June 30, 2003 Compared To The Six month Period Ended June 30, 2002.*

Net sales for the six months ended June 30, 2003 were \$5,479,000 compared with net sales for the six months ended June 30, 2002 of \$7,285,000, a decrease of \$1,806,000 or 24.8%. The decrease is primarily due to an industry wide decrease in demand for discrete semiconductors.

Cost of goods sold decreased by \$1,546,000 to \$3,782,000 for the six months ended June 30, 2003, a decrease of 29% from the same period in 2002. Consistent with the decrease in net sales, cost of goods sold decreased, however at a faster rate, resulting in gross profit increasing as a percentage of net sales to 31% for the first six months of this year from 26.9% for the same period last year. Gross profit decreased by \$260,000 to \$1,697,000 for the six months ended June 30, 2003 from \$1,957,000 for the same period in 2002. Also contributing to the decrease in gross profit was a provision for inventory reserves of \$156,000 and \$265,000 during the six months ended June 30, 2003

and 2002, respectively.

SG&A expenses decreased by \$747,000 or 31.6% for the six months ended June 30, 2003 compared to the same period in 2002. The decrease is primarily attributable to cost cutting measures consistently implemented during the last twelve months. As a result, personnel-related expenses decreased by \$486,000, with no other



individual item significantly impacting the change during the six months ended June 30, 2003. The corresponding average employee base declined by 12 employees, which represents a 28% reduction in overall workforce. As a percentage of net sales, SG&A decreased to 29.5% for the six months ended June 30, 2003 from 32.5% for the same period last year.

Operating income was \$80,000 for the six months ended June 30, 2003 as compared to an operating loss of \$407,000 for the same period ended June 30, 2002. The operating loss decreased primarily due to the cost cutting measures, as discussed above.

Interest expense, net of interest income for the six months ended June 30, 2003 decreased by \$32,000 compared to the six months ended June 30, 2002. The decrease is primarily due to lower outstanding borrowing levels incurred during the current quarter, when compared to the same period last year.

No income tax provision or benefit was recorded during the six months ended June 30, 2003, as compared to an income tax provision of \$437,000 for the same period last year.

Net loss was \$86,000 for the six months ended June 30, 2003 compared to \$936,000 for the same period in 2002, a decrease of \$850,000 resulting from the same reasons discussed above.

#### *Liquidity and Capital Resources*

We have satisfied our liquidity requirements principally through cash generated from operations, short-term commercial loans, subordinated promissory notes and issuance of equity securities. A summary of our cash flows resulting from our operating, investing and financing activities for the six months ended June 30, 2003 and 2002 are as follows:

	Six months ended June 30,	
	2003	2002
(Dollars in thousands)	(Unaudited)	(Unaudited)
Operating activities	\$ 2,400	\$ 1,144
Investing activities	(14)	(175)
Financing activities	(2,054)	(1,027)

Cash flows provided by operating activities increased to \$2,400,00 during the six months ended June 30, 2003, as compared to \$1,144,000 during the same period last year. The change is primarily due to a decrease in inventory of \$1,505,000 during the first six months of 2003, as compared to a decrease of \$330,000 during the same period last year. Additionally, the overall increase in operating cash flow was affected by a decrease in accounts receivable of \$523,000 during the first six months of 2003, as compared to an increase of \$498,000 during the same period last year. The Company's ability to continue generating cash from operations is dependent upon using its current inventory (as opposed to new purchases of inventory) for generating sales, collection of its receivables and extended payments of accounts payables.

Cash flows used in investing activities was \$14,000 during the six months ended June 30, 2003 compared to \$175,000 during the same period last year. Cash flows from investing activities may change significantly in the following three months due to the probable sale of one of the Company's buildings (see *Subsequent Events* below).

Cash flows used in financing activities increased to \$2,054,000 from \$1,027,000 during the six months ended

June 30, 2003 and 2002, respectively.

Inventory is included in current assets, however, it may take over one year for the inventory to turn and therefore may not be saleable within a one-year time frame. 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 and issuance of debt or equity securities will be sufficient to finance our working capital and capital expenditure requirements for the foreseeable future or until principal payments are due under the outstanding subordinated notes.

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

#### *Subsequent Events*

As of August 11, 2003, the Company has closed escrow on the sale of its former office/warehouse facility for \$1,800,000.

The Company received notice that it is not in compliance with The Nasdaq National Market continued listing requirements. Nasdaq is allowing the Company through August 19, 2003 to regain compliance. If the Company cannot demonstrate compliance before that date, Nasdaq staff may notify the Company of a determination to delist the Company's securities. If an initial delisting decision is made by the staff, the Company may appeal the decision as permitted by Nasdaq rules. Nasdaq also stated that the Company may apply to transfer its securities to The Nasdaq SmallCap Market before August 19, 2003. In response to this Nasdaq notification, as of August 7, 2003, the Company plans to apply for listing on the Nasdaq SmallCap Market and retain its ticker symbol of TAIT.

As of the date of this report, the Company has listed for sale its office building facility located in Taipei, Taiwan.

#### Item 3. Controls and Procedures

As of June 30, 2003, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's Exchange Act filings.

There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

None.

#### Item 2. Changes In Securities.

As of August 7, 2003, the Company plans to apply to transfer its Class A securities from the NASDAQ National Market to the NASDAQ SmallCap Market and retain its ticker symbol of TAIT.

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

See Part I Item 1 - Note 3 and Part I Item 2 - MANAGEMENT S DISCUSSION AND ANALYSIS - Revolving Line of Credit Facility.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

31 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

10.29 Subordinated Promissory Note, Dated June 23, 2003, between Registrant and K.S. Best International Co., Ltd.

(b) Reports on Form 8-K:

None.

## 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 14, 2003

By: /s/ STEWART WANG

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Stewart Wang  
Chief Executive Officer, Director,  
Chief Financial Officer and Principal  
Accounting Officer.

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