

TRIO TECH INTERNATIONAL  
Form 10-Q  
February 16, 2010

---

---

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 December 31, 2009

OR

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

For the Transition Period from \_\_\_ to \_\_\_

Commission File Number 1-14523

TRIO-TECH INTERNATIONAL  
(Exact name of Registrant as specified in its Charter)

California  
(State or other jurisdiction of  
incorporation or organization)

95-2086631  
(I.R.S. Employer  
Identification Number)

16139 Wyandotte Street  
Van Nuys, California  
(Address of principal executive offices)

91406  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No





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

|                   | Page  |    |
|-------------------|---|----|
| <b>Part I.</b>    | <b><u>Financial Information</u></b>   |    |
| <b>Item 1.</b>    | <b><u>Financial Statements</u></b>  |    |
|                   | <u>(a) Condensed Consolidated Balance Sheets as of December 31, 2009 (Unaudited) and June 30, 2009</u>  | 2  |
|                   | <u>(b) Condensed Consolidated Statements of Operations and Comprehensive Income for the Three Months and Six Months Ended December 31, 2009 (Unaudited) and December 30, 2008 (Unaudited)</u> | 3  |
|                   | <u>(c) Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2009 (Unaudited) and December 30, 2008 (Unaudited)</u>   | 4  |
|                   | <u>(d) Notes to Consolidated Financial Statements (Unaudited)</u>   | 5  |
| <b>Item 2.</b>    | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>   | 25 |
| <b>Item 3.</b>    | <b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>  | 45 |
| <b>Item 4T.</b>   | <b><u>Controls and Procedures</u></b>   | 45 |
| <b>Part II.</b>   | <b><u>Other Information</u></b>   |    |
| <b>Item 1.</b>    | <b><u>Legal Proceedings</u></b>   | 46 |
| <b>Item 1A.</b>   | <b><u>Risk Factors</u></b>  | 46 |
| <b>Item 2.</b>    | <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>   | 46 |
| <b>Item 3.</b>    | <b><u>Defaults upon Senior Securities</u></b>   | 46 |
| <b>Item 4.</b>    | <b><u>Submission of Matters to a Vote of Security Holders</u></b>   | 46 |
| <b>Item 5.</b>    | <b><u>Other Information</u></b>   | 46 |
| <b>Item 6.</b>    | <b><u>Exhibits</u></b>  | 47 |
| <b>Signatures</b> |   | 48 |

Table of Contents

FORWARD-LOOKING STATEMENTS

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

Unless otherwise required by law, we undertake no obligation to update forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events. Important factors that could cause or contribute to such material differences include those discussed in "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K. You are cautioned not to place undue reliance on such forward-looking statements.

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT NUMBER OF SHARES)

|   | December 31,<br>2009<br>(Unaudited) | June 30,<br>2009 |
|---|-------------------------------------|------------------|
| <b>ASSETS</b>   |                                     |                  |
| <b>CURRENT ASSETS:</b>  |                                     |                  |
| Cash & cash equivalent  | \$ 4,699                            | \$ 6,037         |
| Short-term deposits   | 1,371                               | 1,994            |
| Trade accounts receivable, less allowance for doubtful<br>accounts of \$100 and \$165 | 5,919                               | 3,981            |
| Other receivables   | 501                                 | 279              |
| Inventories, less allowance for obsolete inventory<br>of \$834 and \$718              | 1,485                               | 1,184            |
| Prepaid expenses and other current assets   | 195                                 | 167              |
| Total current assets  | 14,170                              | 13,642           |
| INVESTMENT PROPERTY IN CHINA , Net  | 2,627                               | 2,935            |
| PROPERTY, PLANT AND EQUIPMENT, Net  | 11,044                              | 6,607            |
| GOODWILL  | 434                                 | -                |
| OTHER ASSETS  | 209                                 | 1,326            |
| RESTRICTED TERM DEPOSITS  | 3,570                               | 3,437            |
| <b>TOTAL ASSETS</b>   | <b>\$ 32,054</b>                    | <b>\$ 27,947</b> |
| <b>LIABILITIES</b>  |                                     |                  |
| <b>CURRENT LIABILITIES:</b>   |                                     |                  |
| Accounts payable  | \$ 2,955                            | \$ 1,025         |
| Accrued expenses  | 1,830                               | 1,769            |
| Income taxes payable  | 191                                 | 202              |
| Current portion of bank loans payable   | 1,132                               | 1,266            |
| Current portion of capital leases   | 78                                  | 78               |
| Total current liabilities   | 6,186                               | 4,340            |
| BANK LOANS PAYABLE, net of current portion  | 2,511                               | 237              |
| CAPITAL LEASES, net of current portion  | 16                                  | 52               |
| DEFERRED TAX LIABILITIES  | 531                                 | 526              |
| OTHER NON-CURRENT LIABILITIES   | 634                                 | 10               |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 9,878</b>                     | <b>\$ 5,165</b>  |
| COMMITMENT AND CONTINGENCIES  | -                                   | -                |
| <b>EQUITY</b>   |                                     |                  |
| TRIO-TECH INTERNATIONAL'S SHAREHOLDERS' EQUITY:                                       |                                     |                  |
| Common stock; no par value, 15,000,000 shares authorized;                             |                                     |                  |

Edgar Filing: TRIO TECH INTERNATIONAL - Form 10-Q

|   |    |        |    |        |
|---|----|--------|----|--------|
| 3,227,430 shares issued and outstanding as at December 31, 2009,<br>and June 30, 2009, respectively | \$ | 10,365 | \$ | 10,365 |
| Paid-in capital   |    | 1,534  |    | 1,446  |
| Accumulated retained earnings   |    | 5,724  |    | 6,859  |
| Accumulated other comprehensive loss-translation adjustments  |    | 1,422  |    | 1,194  |
| Total Trio-Tech International shareholders'<br>equity   |    | 19,045 |    | 19,864 |
| NONCONTROLLING INTEREST   |    | 3,131  |    | 2,918  |
| TOTAL EQUITY  | \$ | 22,176 | \$ | 22,782 |
| TOTAL LIABILITIES AND EQUITY  | \$ | 32,054 | \$ | 27,947 |

See notes to condensed consolidated financial statements.

-2-

---

Table of Contents

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

|  | Six Months Ended |                  | Three Months Ended |                  |
|--|------------------|------------------|--------------------|------------------|
|  | Dec. 31,<br>2009 | Dec. 31,<br>2008 | Dec. 31,<br>2009   | Dec. 31,<br>2008 |
| Revenue  |                  |                  |                    |                  |
| Products   | \$7,001          | \$5,966          | \$3,139            | \$2,834          |
| Services   | 5,263            | 5,826            | 2,592              | 2,728            |
| Fabrication Services                                     | 704              | -                | 200                | -                |
| Others   | 328              | 257              | 260                | 243              |
|  | 13,296           | 12,049           | 6,191              | 5,805            |
| Cost of Sales  |                  |                  |                    |                  |
| Cost of products sold                                    | 6,071            | 4,897            | 2,784              | 2,230            |
| Cost of services rendered                                | 3,816            | 4,272            | 1,731              | 2,011            |
| Cost of fabrication services rendered                    | 1,193            | -                | 699                | --               |
| Others   | 71               | 19               | 36                 | 19               |
|  | 11,151           | 9,188            | 5,250              | 4,260            |
| Gross Margin   | 2,145            | 2,861            | 941                | 1,545            |
| Operating Expenses/ (Gains) :                            |                  |                  |                    |                  |
| General and administrative                               | 3,028            | 3,339            | 1,437              | 1,324            |
| Selling  | 227              | 206              | 95                 | 83               |
| Research and development                                 | 20               | 20               | 10                 | 10               |
| Impairment loss  | -                | 520              | -                  | 520              |
| (Gain)/loss on disposal of property, plant and equipment | (1 )             | (154 )           | -                  | 5                |
| Total operating expenses                                 | 3,274            | 3,931            | 1,542              | 1,942            |
| Loss from Operations                                     | (1,129 )         | (1,070 )         | (601 )             | (397 )           |
| Other Income (Expenses)                                  |                  |                  |                    |                  |
| Interest expense   | (74 )            | (104 )           | (55 )              | (46 )            |
| Other income   | 143              | 332              | 146                | 131              |
| Total other income                                       | 69               | 228              | 91                 | 85               |
| Loss Before Income Taxes                                 | (1,060 )         | (842 )           | (510 )             | (312 )           |
| Income Tax Expenses (Benefits)                           | (28 )            | 36               | 9                  | (62 )            |
| Loss before non-controlling interest                     | (1,032 )         | (878 )           | (519 )             | (250 )           |
| Non-controlling interest                                 | (103 )           | (267 )           | (65 )              | (176 )           |
| NET LOSS   | (1,135 )         | (1,145 )         | (584 )             | (426 )           |
| Comprehensive Loss                                       |                  |                  |                    |                  |
| Net loss   | (1,032 )         | (878 )           | (519 )             | (250 )           |
| Foreign currency translation adjustment                  | 338              | (678 )           | 109                | (22 )            |



Edgar Filing: TRIO TECH INTERNATIONAL - Form 10-Q

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Comprehensive Loss  | (694 )    | (1,556 )  | (410 )    | (272 )    |
| Comprehensive loss attributable to the non-controlling interest | (213 )    | (267 )    | (140 )    | (162 )    |
| Comprehensive loss attributable to Trio-Tech International      | (907 )    | (1,823 )  | (550 )    | (434 )    |
| <b>LOSS PER SHARE:</b>  |           |           |           |           |
| Basic loss per share  | \$(0.35 ) | \$(0.35 ) | \$(0.18 ) | \$(0.13 ) |
| <b>Weighted Average Shares Outstanding:</b>                     |           |           |           |           |
| Basic   | 3,227     | 3,227     | 3,227     | 3,227     |

See accompanying notes to condensed consolidated financial statements.

-3-

---

Table of ContentsTRIO-TECH INTERNATIONAL AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

|   | Six Months Ended                    |                                     |
|---|-------------------------------------|-------------------------------------|
|   | December 31,<br>2009<br>(unaudited) | December 31,<br>2008<br>(unaudited) |
| <b>Cash Flow from Operating Activities</b>  |                                     |                                     |
| Net loss  | \$ (1,135 )                         | \$ (1,145 )                         |
| Adjustments to reconcile net loss to net cash flow provided by operating activities |                                     |                                     |
| Depreciation and amortization   | 1,072                               | 1,103                               |
| Bad debt expense  | 135                                 | 12                                  |
| Inventory provision   | 116                                 | 71                                  |
| Interest income on short-term deposits  | (12 )                               | (40 )                               |
| Gain on sale of equipment   | (1 )                                | (154 )                              |
| Investment income   | -                                   | 240                                 |
| Stock compensation  | 88                                  | 275                                 |
| Deferred tax provision  | 5                                   | 29                                  |
| Non-controlling interest  | 200                                 | 267                                 |
| Changes in operating assets and liabilities, net of acquisition effects             |                                     |                                     |
| Accounts receivables  | (1,812 )                            | 1,752                               |
| Other receivables   | (222 )                              | -                                   |
| Other assets  | (155 )                              | 7                                   |
| Inventories   | (417 )                              | 707                                 |
| Prepaid expenses and other current assets   | 304                                 | 420                                 |
| Accounts payable and accrued liabilities  | 1,115                               | (3,061 )                            |
| Income tax payable  | (11 )                               | (51 )                               |
| Other non-current liabilities   | (47 )                               | -                                   |
| Net cash provided by operating activities   | (777 )                              | 472                                 |
| <b>Cash Flow from Investing Activities</b>  |                                     |                                     |
| Proceeds from unrestricted and restricted term deposits, net                        | 514                                 | 2,433                               |
| Investments in short-term deposits  | -                                   | (152 )                              |
| Proceeds from investment property   | 291                                 | -                                   |
| Investment in Chongqing, China  | (31 )                               | (529 )                              |
| Additions to property, plant and equipment  | (3,874 )                            | (1,034 )                            |
| Acquisition of PT SAS Indonesia, net of cash acquired                               | 225                                 | -                                   |
| Proceeds from sale of equipment   | 3                                   | 178                                 |
| Net cash provided by (used in) investing activities                                 | (2,872 )                            | 896                                 |
| <b>Cash Flow from Financing Activities</b>  |                                     |                                     |
| Net borrowings on lines of credit   | -                                   | 5                                   |
| Repayment of bank loans and capital leases  | (1059 )                             | (972 )                              |
| Proceeds from long-term bank loans and capital leases                               | 3,112                               | -                                   |
| Proceeds from exercising stock options  | -                                   | 3                                   |
| Net cash provided by (used in) financing activities                                 | 2,053                               | (964 )                              |
| Effect of Changes in Exchange Rate  | 258                                 | (263 )                              |

Edgar Filing: TRIO TECH INTERNATIONAL - Form 10-Q

|   |          |          |
|---|----------|----------|
| NET (DECREASE) INCREASE IN CASH                     | (1,338 ) | 141      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD      | 6,037    | 6,600    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD            | \$ 4,699 | \$ 6,741 |
| Supplementary Information of Cash Flows             |          |          |
| Cash paid during the period for:                    |          |          |
| Interest  | \$ 65    | \$ 131   |
| Income taxes  | \$ 1     | \$ -     |
| Non-Cash Transactions                               |          |          |
| Non-cash investment for the investment in Chongqing | -        | 502      |
| Non-cash capital expenditure                        | 1,272    | 9        |

See notes to condensed consolidated financial statements.

-4-

Table of Contents

## TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT PER SHARE AND NUMBER OF SHARES)

## 1. ORGANIZATION AND BASIS OF PRESENTATION

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

|  | Ownership | Location                      |
|--|-----------|-------------------------------|
| Express Test Corporation (dormant)                                     | 100%      | Van Nuys, California          |
| Trio-Tech Reliability Services (dormant)                               | 100%      | Van Nuys, California          |
| KTS Incorporated, dba Universal Systems (dormant)                      | 100%      | Van Nuys, California          |
| European Electronic Test Centre (Operation ceased on November 1, 2005) | 100%      | Dublin, Ireland               |
| Trio-Tech International Pte. Ltd.                                      | 100%      | Singapore                     |
| Universal (Far East) Pte. Ltd.   | 100%      | Singapore                     |
| Trio-Tech Thailand   | 100%      | Bangkok, Thailand             |
| Trio-Tech Bangkok  | 100%      | Bangkok, Thailand             |
| Trio-Tech Malaysia   | 55%       | Penang and Selangor, Malaysia |
| Trio-Tech Kuala Lumpur – owned by Trio-Tech Malaysia                   | 55%       | Selangor, Malaysia            |
| Prestal Enterprise Sdn. Bhd.   | 76%       | Selangor, Malaysia            |
| Trio-Tech (Suzhou) Co., Ltd.   | 100%      | Suzhou, China                 |
| Trio-Tech (Shanghai) Co., Ltd.   | 100%      | Shanghai, China               |
| Trio-Tech (Chongqing) Co., Ltd.  | 100%      | Chongqing, China              |
| SHI International Pte., Ltd.   | 55%       | Singapore                     |
| PT SHI Indonesia (acquired on July 1, 2009)                            | 55%       | Batam, Indonesia              |

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All significant inter-company accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements are presented in U.S. dollars. The accompanying condensed consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the six months ended December 31, 2009 are not necessarily indicative of the results that may be expected

Edgar Filing: TRIO TECH INTERNATIONAL - Form 10-Q

for the fiscal year ending June 30, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the fiscal year ended June 30, 2009.

-5-

---

Table of Contents

New Accounting Policy:

Revenue Recognition — We adopted the following revenue recognition policy for our fabrication service segment which was acquired in the first quarter of fiscal 2010.

In the fabrication services segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, (1) Input measures - measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs (2) Output measures – measured based on completion on results achieved - units produced or units delivered. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the actual gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

Reclassification: — Certain reclassifications have been made to the previous year’s financial statements to conform to current year presentation, with no effect on previously reported net income.

2. ACQUISITION OF PT SHI INDONESIA, BATAM, INDONESIA

On July 1, 2009, SHI International Pte., Ltd., a 55% owned subsidiary of the Company, consummated the acquisition of a 100% interest in PT SHI Indonesia, pursuant to the Share Purchase Agreement dated April 7, 2009. PT SHI Indonesia is an Indonesia-based enterprise providing fabrication of large and complex structures employed to process oil and gas and for temporary storage of the oil prior to transshipment, and related services for the offshore oil and gas industries. The Company’s objective for acquiring this business was to diversify its business, reduce the risk associated with sole industry focus, and enhance the Company’s future growth opportunities. There were operating activities in PT SHI Indonesia for the six months ended December 31, 2008. Beginning on July 1, 2009, the operating results of this subsidiary were included in the consolidated statements of the Company for the six months ended December 31, 2009. Fabrication services are included in the Company’s new segment “fabrication services”. This acquisition transaction was not considered significant to the Company.

Pursuant to the Share Purchase Agreement dated April 7, 2009. the purchase price was approximately \$113, consisting of \$10 in cash and \$103 in a contingent note payable which matures in two years. In accordance with ASC Top 805, Business Combinations, the Company allocated the purchase price to the tangible assets and liabilities based on their estimated fair values. The fair value assigned to intangible assets acquired was based on estimates and assumptions determined by management. The total purchase price was allocated as follows (in thousands):

Table of Contents

|                                       |           |
|---------------------------------------|-----------|
| Total purchase price:                 |           |
| Cash                                  | \$ 10     |
| Contingent note payable               | 103       |
|                                       | \$ 113    |
| Allocated as follows:                 |           |
| Cash & cash equivalent                | \$ 235    |
| Accounts receivable                   | 261       |
| Other current assets                  | 332       |
| Fixed assets                          | 298       |
| Accounts payable and accrued expenses | (876 )    |
| Other non-current liabilities         | (568 )    |
| NET ASSETS                            | \$ (318 ) |
| Goodwill                              | 431       |
|                                       | \$ 113    |

The contingent note payable of \$103 recorded during the six months ended December 31, 2009 was related to agreements to pay additional amounts based on achievement of certain performance measures for up to two years ending after the acquisition date. The excess purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill will not be amortized, but will be evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. The goodwill is not tax deductible.

The unaudited financial information in the table below summarizes the combined results of the operations of the Company and the new Fabrication Services segment for the three and six months ended December 31, 2009 as if the acquisition had occurred on July 1, 2008. The results from operations for the three and six months ended December 31, 2009 included the acquisition of PT SHI Indonesia, Batam , Indonesia that was completed at the beginning of the first quarter of fiscal 2009.

The pro forma results are presented for information purposes only and are not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of the three and six months ended December 31, 2008. The unaudited pro forma combined the statement of operations for the three and six months ended December 31, 2008 and historical results for the new Fabrication & Services segment for the period preceding the acquisition on July 1, 2008.

Table of Contents

The following amounts are in thousands.

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

|   | Historical<br>Information<br>of the Company (1)<br>(Unaudited) | Historical Information<br>of the Acquired Entity<br>(Unaudited) | Pro Forma  |
|---|--|---|------------|
| Net sales   | \$ 5,805   | \$ 67   | \$ 5,872   |
| Net loss  | \$ (426 )  | \$ (404 )   | \$ (830 )  |
| Basic loss per share                                  | \$ (0.13 )   | (0.13 )   | \$ (0.26 ) |
| Diluted loss per share                                | \$ (0.13 )   | (1.13 )   | \$ (0.26 ) |
| Basic weighted average common shares<br>outstanding   | 3,227  | -   | 3,227      |
| Diluted weighted average common shares<br>outstanding | 3,227  | -   | 3,227      |

Note: The currency exchange rate is based on the average exchange rate of the related period.

1. The historical operating results of the Company were based on the Company's unaudited financial statement in this Form 10-Q filed with the SEC for the three-month period ended December 31, 2008

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008

|   | Historical Information<br>of the Company (1)<br>(Unaudited) | Historical Information of<br>the Acquired Entity<br>(Unaudited) | Pro Forma   |
|---|---|---|-------------|
| Net sales   | \$ 12,049   | \$ 67   | \$ 12,116   |
| Net loss  | \$ (1,145 )   | \$ (404 )   | \$ (1,549 ) |
| Basic loss per share                                  | \$ (0.35 )  | (0.13 )   | \$ (0.48 )  |
| Diluted loss per share                                | \$ (0.35 )  | (0.13 )   | \$ (0.48 )  |
| Basic weighted average common shares<br>outstanding   | 3,227   | -   | 3,227       |
| Diluted weighted average common shares<br>outstanding | 3,227   | 0   | 3,227       |

Note: The currency exchange rate is based on the average exchange rate of the related period.

1. The historical operating results of the Company were based on the Company's unaudited financial statement in its Form 10-Q filed with the SEC for the six month period ended December 31, 2008.



Table of Contents

3. NEW ACCOUNTING PRONOUNCEMENTS

In June 2009 the FASB established the Accounting Standards Codification ("Codification" or "ASC") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") issued under authority of federal securities laws are also sources of GAAP for SEC registrants. Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact our financial statements. The ASC does change the way the guidance is organized and presented.

Statement of Financial Accounting Standards ("SFAS") SFAS No. 165 (ASC Topic 855), Subsequent Events, SFAS No. 166 (ASC Topic 810), Accounting for Transfers of Financial Assets-an Amendment of FASB Statement No. 140, SFAS No. 167 (ASC Topic 810), Amendments to FASB Interpretation No. 46(R), and SFAS No. 168 (ASC Topic 105), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a Replacement of FASB Statement No. 162 were recently issued. SFAS No. 165, 166, 167, and 168 have no current applicability to the Company or their effect on the financial statements would not have been significant.

Accounting Standards Update ("ASU") ASU No. 2009-05 (ASC Topic 820), which amends Fair Value Measurements and Disclosures - Overall, ASU No. 2009-13 (ASC Topic 605), Multiple-Deliverable Revenue Arrangements, ASU No. 2009-14 (ASC Topic 985), Certain Revenue Arrangements that include Software Elements, and various other ASU's No. 2009-2 through ASU No. 2009-15 which contain technical corrections to existing guidance or affect guidance to specialized industries or entities were recently issued. These updates have no current applicability to the Company or their effect on the financial statements would not have been significant.

The FASB issued Statement of Financial Accounting Standards ("SFAS") No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, on June 29, 2009 and, in doing so, authorized the Codification as the sole source for authoritative U.S. GAAP. SFAS No. 168 is effective for financial statements issued for reporting periods that end after September, 15, 2009. SFAS 168 supersedes all accounting standards for U.S. GAAP, aside from those issued by the SEC. SFAS No. 168 replaces No. 162 to establish a new hierarchy of GAAP sources for non-governmental entities under the FASB Accounting Standard Codification.

In July 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS. 168"). Statement No. 168 supersedes Statement No. 162 issued in May 2008. Statement No. 168 will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for interim and annual periods ending after September 15, 2009, including the period covered by this report. The adoption of Statement No.168 does not materially impact the Company's consolidated financial position or results of operations.

Table of Contents

In June 2009, the FASB issued SFAS No. 167 Amendments to FASB Interpretation No. 46(R). This standard changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The statement becomes effective as to the Company on December 31, 2010. The Company is currently evaluating the impact this statement may have on our consolidated results of operations and financial condition and does not expect the impact, if any, to be material.

Effective June 30, 2009, the Company adopted a new accounting standard included in ASC 855 Subsequent Events that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This new accounting standard provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The implementation of this standard did not have a material impact on our condensed consolidated financial statements. The Company evaluated subsequent events through February 12, 2010, the date the accompanying financial statements were issued.

August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05 Fair Value Measurement and Disclosures Topic 820 - Measuring Liabilities at Fair Value, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures - Overall, for the fair value measurement of liabilities. This update provides clarification on the methods to be used in circumstances in which a quoted price in an active market for the identical liability is not available. The provisions of ASU 2009-05 were effective for the third quarter of 2009. The adoption of ASU 2009-05 did not have a material impact on the Company's financial statements.

In August 2009, the FASB issued an Update to ASC 820, Fair Value Measurements and Disclosures 2009-05 Measuring Liabilities at Fair Value, to provide guidance on measuring the fair value of liabilities under ASC 820. This update clarifies the fair value measurements for a liability in an active market and the valuation techniques in the absence of a Level 1 measurement. This update became effective for the interim period beginning October 1, 2009. The adoption of this update does not have a material impact on the Company's consolidated financial statements.

In August 2009, the FASB issued new accounting guidance to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. This guidance became effective as to the Company on October 1, 2009 and does not have significant impact on the Company's consolidated financial position or results of operations.

In September 2009 the New FASB Accounting Standards Update 2009-08 issued in Earnings Per Share (amendments to Section 260-10-S99). This update includes technical corrections to Topic 260-10-S99 Earnings Per Share, based on EITF Topic D-53, "Computation of Earnings Per Share for a Period that includes redemption or an induced conversion of a portion of a class of preferred stock" and EITF Topic D-42, "The effect of the calculation of Earnings Per Share for the redemption or induced conversion of preferred stock." Implementation of this does not have an impact on its results or financial position of the Company.

Table of Contents

In October 2009, FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605): "Multiple Deliverable Revenue Arrangements" (a Consensus of the FASB EITF). ASU No. 2009-13 modifies ASC 605-25, "Revenue Recognition - Multiple-Element Arrangements" (formerly EITF 00-21). ASU No. 2009-13 requires an entity to allocate the revenue at the inception of an arrangement to all of its deliverables based on their relative selling prices. This guidance eliminates the residual method of allocation of revenue in multiple deliverable arrangements and requires the allocation of revenue based on the relative-selling-price method. The determination of the selling price for each deliverable requires the use of a hierarchy designed to maximize the use of available objective evidence, including, VSOE, third party evidence of selling price (TPE), or estimated selling price (ESP).

In October 2009, FASB issued Accounting Standards Update (ASU) No. 2009-14, Topic 985: Certain Revenue Arrangements That Include Software Elements (a Consensus of the FASB Emerging Issues Task Force Issue (EITF)). ASU No. 2009-14 modifies ASC 985-605, Software Revenue, such that the following products would be considered non-software deliverables and therefore excluded from the scope of ASC 985-605:

- Tangible products that contain software elements and non-software elements that function together to deliver the tangible product's essential functionality.
  - Undelivered elements that are essential to the above described tangible product's functionality.

ASU No. 2009-13 and ASU No. 2009-14 must be adopted no later than the beginning of the Company's fiscal year 2011 and early adoption is allowed and may be adopted either under the prospective method, whereby the guidance will apply to all revenue arrangements entered into or materially modified after the effective date, or under the retrospective application, whereby the guidance will apply to all revenue arrangements for all periods presented. An entity may elect to adopt ASU No. 2009-13 and ASU No. 2009-14 in a period other than their first reporting period of a fiscal year under the prospective method but must adjust the revenue of prior reported periods such that all new revenue arrangements entered into, or materially modified, during the fiscal year of adoption are accounted for under this guidance.

The adoption of ASU No. 2009-13 and ASU No. 2009-14 will allow the separation of deliverables under more arrangements which may result in less revenue deferral. For such arrangements, the application of the relative-selling price method of allocating the revenue of an arrangement and the elimination of the residual method of allocation may result in a different reallocation of revenue from product revenue, which is recognized upon delivery, to support revenue, which is recognized ratably over the support period.

The Company is currently evaluating the impact of these pronouncements on its financial position and results of operations.

#### 4. INVENTORIES

Inventories consisted of the following:

|  | Dec. 31,<br>2009<br>(Unaudited) | June 30,<br>2009 |
|--|---------------------------------|------------------|
| Raw materials                          | \$ 1,127                        | \$ 1,084         |
| Work in progress                       | 1,041                           | 645              |
| Finished goods                         | 151                             | 173              |
| Less: provision for obsolete inventory | (834 )                          | (718 )           |
|  | \$ 1,485                        | \$ 1,184         |



Table of Contents

## 5. STOCK OPTIONS

As of December 31, 2009, there were no outstanding options to purchase Common Stock which had been granted pursuant to the 1998 Employee Option Plan, which plan was terminated on December 2, 2005 by the Company's Board of Directors.

On September 24, 2007, the Company's Board of Directors unanimously adopted the 2007 Employee Stock Option Plan and the 2007 Directors Equity Incentive Plan, which were approved by the shareholders on December 3, 2007. The 2007 Employee Stock Option Plan provides for awards of up to 300,000 shares of the Company's Common Stock to employees, consultants and advisors. The 2007 Directors Equity Incentive Plan provides for awards of up to 200,000 shares of the Company's Common Stock to the members of the Board of Directors in the form of non-qualified options and restricted stock. These two plans are administered by the Board, which also establishes the terms of the awards.

## Assumptions

The fair value for these awards was estimated using the Black-Scholes option pricing model with the following weighted average assumptions, assuming no expected dividends:

|                         | Six Months Ended<br>December 31, 2009 | Year Ended<br>June 30, 2009 |
|-------------------------|---------------------------------------|-----------------------------|
| Expected volatility     | 107.18-145.18%                        | 107.18-145.18%              |
| Risk-free interest rate | 1.27 – 2.48%                          | 1.27 – 2.48%                |
| Expected life (years)   | 2.00 - 3.25                           | 2.00 - 3.25                 |

The expected volatilities are based on the historical volatility of the Company's stock. The observation is made on a weekly basis. The observation period covered is consistent with the expected life of options. The expected term of options granted to employees has been determined utilizing the "simplified" method as prescribed by SAB No. 107, Share-Based Payment, as amended by SAB No. 110 on January 1, 2008, which, among other provisions, allowed companies without access to adequate historical data about employee exercise behavior to use a simplified approach for estimating the expected term of a "plain vanilla" option grant. The simplified rule for estimating the expected term of such an option was the average of the time to vesting and the full term of the option. The risk-free rate is consistent with the expected terms of the stock options and is based on the United States Treasury yield curve in effect at the time of grant.

## 2007 Employee Stock Option Plan

The Company's 2007 Employee Stock Option Plan (the "2007 Employee Plan"), which is shareholder-approved, permits the grant of stock options to its employees of up to 300,000 shares of Common Stock. Under the 2007 Employee Plan, all options must be granted with an exercise price of not less than "fair market value" as of the grant date and the options granted should be exercisable within a maximum of ten years after the date of grant, or such lesser period of time as is set forth in the stock option agreements. The options may be exercisable (a) immediately as of the effective date of the stock option agreement granting the option, or (b) in accordance with a schedule related to the date of the grant of the option, the date of first employment, or such other date as may be set by the Compensation Committee. Generally, options granted under the 2007 Employee Plan are exercisable within five years after the date of grant, and vest over the period as follows: 25% vesting on the grant date and the remaining balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The share-based compensation will be recognized in terms of the grade method over the vesting period. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 2007 Employee Plan).



Table of Contents

The Company did not grant any options pursuant to the 2007 Employee Plan during the six months ended December 31, 2009. The Company recognized stock-based compensation expenses of \$88 in the six months ended December 31, 2009 under the 2007 Employee Plan. The balance of unamortized stock-based compensation of \$148 based on fair value on the grant date related to options granted under the 2007 Employee Plan is expected to be recognized over a period of three years.

During the six months ended December 31, 2008, pursuant to the 2007 Employee Plan, 50,000 shares of stock options were granted to certain officers and employees with an exercise price equal to the fair market value of the Company's Common Stock (as defined under the 2007 Employee Plan in conformity with Regulation 409A of the Internal Revenue Code of 1986, as amended) at the date of grant. These options vest over the period as follows: 25% vesting on the grant date, and the balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The fair market value of 50,000 shares of the Company's Common Stock issuable upon exercise of stock options granted was approximately \$136 based on the fair value of \$2.71 per share determined by using the Black Scholes option pricing model.

The Company recognized stock-based compensation expense of approximately \$112 in the six months ended December 31, 2008 under the 2007 Employee Plan. Unamortized stock-based compensation of \$135 based on fair value on the grant date related to options granted under the 2007 Employee Plan is expected to be recognized over a period of three years.

As of December 31, 2009, there were vested employee stock options covering a total of 102,125 shares of Common Stock. The weighted-average exercise price was \$4.70 and the weighted average remaining contractual term was 3.75 years. The total intrinsic value of vested employee stock options during the six month period ended December 31, 2009 was \$74. A summary of option activities under the 2007 Employee Plan during the six month period ended December 31, 2009 is presented as follows:

|                                  | Options | Weighted-Average Exercise Price | Weighted - Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at July 1, 2009      | 283,000 | \$ 3.32                         | 4.47  | -                         |
| Granted                          | -       | -                               | -   | -                         |
| Exercised                        | -       | -                               | -   | -                         |
| Forfeited or expired             | (6,000) | 3.21                            | 3.78  |                           |
| Outstanding at December 31, 2009 | 277,000 | \$ 3.31                         | 3.97  | \$ 294                    |
| Exercisable at December 31, 2009 | 102,125 | \$ 4.70                         | 3.75  | \$ 74                     |

Table of Contents

A summary of the status of the Company's non-vested employee stock options during the six months ended December 31, 2009 is presented below:

|                                 | Options  | Weighted-Average<br>Grant-Date<br>Fair Value |
|---------------------------------|----------|--|
| Non-vested at July 1, 2009      | 202,375  | \$ 3.84                                      |
| Granted                         | -        | -  |
| Vested                          | (19,000) | 4.14   |
| Forfeited                       | (6,000)  | 2.17   |
| Non-vested at December 31, 2009 | 177,375  | \$ 4.90                                      |

## 2007 Directors Equity Incentive Plan

The 2007 Directors Equity Incentive Plan (the "2007 Directors Plan"), which is shareholder-approved, permits the grant of 200,000 shares of Common Stock to its duly elected non-employee directors in the form of non-qualified options and restricted stock. The exercise price of the non-qualified options is 100% of the fair market value of the underlying shares on the grant date. The options have five-year contractual terms and are generally exercisable immediately as of the grant date.

During the six months ended December 31, 2009, the Company did not grant any options pursuant to the 2007 Directors Plan.

During the six months ended December 31, 2008, pursuant to the 2007 Directors Plan, stock options covering 60,000 shares of Common Stock were granted to our directors with an exercise price equal to the fair market value of our Common Stock (as defined under the 2007 Directors Plan in conformity with Regulation 409A or the Internal Revenue Code of 1986, as amended) at the date of grant. The fair market value of the 60,000 shares of the Company's Common Stock issuable upon exercise of such stock options was approximately \$163 based on the fair value of \$2.71 per share determined by the Black Scholes option pricing model.

There were no options exercised under the 2007 Directors Equity Incentive Plan during the six months ended December 31, 2009 and 2008. The Company recognized stock-based compensation expense of zero and \$163 in the six month period ended December 31, 2009 and 2008, respectively, under the 2007 Directors Plan.



Table of Contents

The total intrinsic value of directors' stock options during the six month period ended December 31, 2009 was \$121. A summary of option activities under the 2007 Employee Plan during the six month period ended December 31, 2009 is presented as follows:

|                                  | Options | Weighted-Average Exercise Price | Weighted - Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at July 1, 2009      | 200,000 | \$ 5.00                         | 4.15  | -                         |
| Granted                          | -       | -                               | -   | -                         |
| Exercised                        | -       | -                               | -   | -                         |
| Forfeited or expired             | -       | -                               | -   | -                         |
| Outstanding at December 31, 2009 | 200,000 | \$ 5.00                         | 3.65  | \$ 121                    |
| Exercisable at December 31, 2009 | 200,000 | \$ 5.00                         | 3.65  | \$ 121                    |

## 1998 Stock Option Plan

A summary of option activities under the 1998 Plan during the six month period ended December 31, 2009 is presented as follows:

|                                  | Options | Weighted-Average Exercise Price | Weighted - Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|---------|---------------------------------|---|---------------------------|
| Outstanding at July 1, 2009      | 2,750   | \$ 4.40                         | -   | -                         |
| Granted                          | -       | -                               | -   | -                         |
| Exercised                        | -       | -                               | -   | -                         |
| Forfeited or expired             | (2,750) | \$ 4.40                         | -   | -                         |
| Outstanding at December 31, 2009 | -       | -                               | -   | -                         |
| Exercisable at December 31, 2009 | -       | -                               | -   | -                         |

Table of Contents

## 6. EARNINGS PER SHARE

The Company adopted ASC Topic 215, Statement of Shareholder Equity. Basic EPS are computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during a period. In computing diluted EPS, the average price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options and warrants.

Options to purchase 483,000 shares of Common Stock at exercise prices ranging from \$1.72 to \$9.57 per share as of December 31, 2009 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Options to purchase 214,750 shares of Common Stock at exercise prices ranging from \$4.40 to \$9.57 per share were outstanding as of December 31, 2008 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

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

|   | Six Months Ended              |                               | Three Months Ended            |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | Dec. 31,<br>2009<br>Unaudited | Dec. 31,<br>2008<br>Unaudited | Dec. 31,<br>2009<br>Unaudited | Dec. 31,<br>2008<br>Unaudited |
| Net loss attributed to common shares                          | (1,135 )                      | (1,145 )                      | (584 )                        | (426 )                        |
| Basic loss per share  | (0.35 )                       | (0.35 )                       | (0.18 )                       | (0.13 )                       |
| Diluted loss per share  | (0.35 )                       | (0.35 )                       | (0.18 )                       | (0.13 )                       |
| Weighted average number of common shares outstanding - basic  | 3,227                         | 3,227                         | 3,227                         | 3,227                         |
| Dilutive effect of stock options                              | -                             | -                             | -                             | -                             |
| Number of shares used to compute earnings per share - diluted | 3,227                         | 3,227                         | 3,227                         | 3,227                         |

Table of Contents

## 7. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are customer obligations due under normal trade terms. Management performs continuing credit evaluations of the customers' financial conditions, and although management generally does not require collateral, letters of credit may be required from the customers in certain circumstances.

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Management includes any accounts receivable balances that are determined to be uncollectible in the allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to us, management believed the allowance for doubtful accounts as of December 31, 2009 and June 30, 2009 was adequate.

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

|                               | Dec. 31,<br>2009<br>(Unaudited) | June 30,<br>2009 |
|-------------------------------|---------------------------------|------------------|
| Beginning                     | \$ 165                          | \$ 51            |
| Additions charged to expenses | 135                             | 128              |
| Recovered                     | (200 )                          | (14 )            |
| Actual write-offs             | -                               | -                |
| Ending                        | \$ 100                          | \$ 165           |

## 8. WARRANTY ACCRUAL

The Company provides for the estimated costs that may be incurred under its warranty program at the time the sale is recorded. The Company provides warranty for products manufactured in the term of one year. The Company estimates the warranty costs based on the historical rates of warranty returns. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

|  | Dec. 31,<br>2009<br>(Unaudited) | June 30,<br>2009 |
|--|---------------------------------|------------------|
| Beginning                              | \$ 113                          | \$ 211           |
| Additions charged to cost and expenses | 30                              | -                |
| Reversal                               | (53 )                           | (80 )            |
| Actual usage                           | (3 )                            | (18 )            |
| Ending                                 | \$ 87                           | \$ 113           |

Table of Contents

## 9. INCOME TAX

The Company had no material adjustments to its liabilities for unrecognized income tax benefits according to the provisions of ASC Topic 740. The income tax benefit was \$28 for the six months ended December 31, 2009 and tax expenses of \$9 for the three months ended December 31, 2009 and the income tax expense was \$36 for the six months and a tax benefit of \$62 for three months ended December 31, 2008

The Company accrues penalties and interest related to unrecognized tax benefits when necessary as a component of penalties and interest expenses, respectively. The Company had not accrued any penalties or interest expenses relating to unrecognized benefits at June 30, 2009 and December 31, 2009.

The major tax jurisdictions in which the Company files income tax returns are the United States, Singapore and Malaysia. The statute of limitations, in general, is open for years 2002 to 2009 for tax authorities in those jurisdictions to audit or examine income tax returns. The Company is under annual review by the government of Singapore. However, the Company is not currently under tax examination in any other jurisdiction.

The Company has not recognized any income tax benefit according to the provisions of ASC Topic 740 during the current quarter in accordance with the provisions of ASC Topic 740.

## 10. INVESTMENT PROPERTY IN CHONGQING, CHINA

The following table presents the Company's investment property in China as at December 31, 2009. The exchange rate is based on the exchange rate on December 31, 2009 published by the Monetary Authority of Singapore (MAS).

|  | Investment Date | Investment Amount (RMB) | Investment Amount (U.S. Dollars) |
|--|-----------------|-------------------------|----------------------------------|
| Investment in property with JiaSheng           | 08/28/07        | 10,000                  | 1,464                            |
| Investment in property with JiaSheng           | 12/17/07        | 5,000                   | 732                              |
| Return of investment in property with JiaSheng | 06/26/08        | (5,000 )                | (732 )                           |
| Return of investment in property with JiaSheng | 10/23/08        | (1,988 )                | (291 )                           |
| Return of investment in property with JiaSheng | 11/16/09        | (1,988 )                | (291 )                           |
| Net Investment in JiaSheng                     |                 | 6,024                   | 882                              |
| Purchase on investment property Maoye          | 01/04/08        | 5,554                   | 813                              |
| Purchase on investment property JiaSheng       | 10/23/08        | 7,042                   | 1,031                            |
| Additional cost of investment                  |                 | 209                     | 31                               |
| Net Investment in Property                     |                 | 12,805                  | 1,875                            |
| Accumulated Depreciation                       |                 | (894 )                  | (130 )                           |
| Total Investment in China by Chongqing         |                 | RMB 19,723              | \$ 2,627                         |

In June 2007, Trio-Tech International Pte., Ltd. established a subsidiary in Chongqing, China. Trio-Tech (Chongqing) Co., Ltd. has a registered capital of RMB 20,000 (Chinese yuan), or equivalent to approximately U.S. \$2,600, and is wholly owned by Trio-Tech International Pte., Ltd.



Table of Contents

On August 27, 2007, Trio-Tech (Chongqing) Co., Ltd. entered into a Memorandum Agreement with JiaSheng Property Development Co., Ltd. (“JiaSheng”) to jointly develop a piece of property with 24.91 acres owned by JiaSheng located in Chongqing City, China, which is intended for sale after the completion of development. Pursuant to the signed agreement, Trio-Tech (Chongqing) Co., Ltd. invested RMB 10,000, equivalent to approximately U.S. \$1,464 based on the exchange rate on December 31, 2009 published by the Monetary Authority of Singapore.

On December 17, 2007, Trio-Tech (Chongqing) Co., Ltd. invested an additional RMB 5,000, approximately U.S. \$732, to increase the square meters of the buildings specified in the original Memorandum Agreement dated August 27, 2007 by 9,885 square meters, which was approved by the Chinese District Zoning Regulation Bureau. After that additional capital infusion, the equity ratio owned by the Company in that joint venture was 20%.

On January 4, 2008, Trio-Tech (Chongqing) Co., Ltd. entered into a Memorandum Agreement with MaoYe Property Ltd. to purchase an office space of 827.2 square meters on the 35th floor of a 40 story office building located in Chongqing, China. The total cash purchase price was RMB 5,554 (Chinese yuan), equivalent to approximately U.S. \$813 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore. Under the terms of the agreement, the Company paid the purchase price in full on January 4, 2008. The Company rented this property to a third party on July 13, 2008. The term of the rental agreement was five years with an annual rental income of RMB 468, or approximately U.S. \$72 for each of the first three years, with an increase of 8% for the fourth and fifth year to RMB 505 or approximately \$78 per year. In the three and six months ended December 31, 2009, this property generated a rental income of U.S. \$17 and \$34 respectively, compared with \$14 and \$31 for the three and six months ended December 31, 2008, respectively.

In the fourth quarter of 2008, the investment of RMB 5,000, approximately U.S. \$732 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore, was returned to the Company, which reduced the investment in this project to \$1,464. After that return of investment, the equity ratio owned by the Company in that joint venture was 15%. The Company also recorded a profit of RMB 750, approximately \$103, in investment income in the fourth quarter of 2008.

In October 2008, Trio-Tech (Chongqing) Co., Ltd. received a second return on investment principal of RMB 1,988, or \$291, and investment income of RMB 1,312, or \$192, from JiaSheng. The investment income was part of the return on investment based on the investment amount of RMB 10,000, or \$1,464. After the second return of investment, the equity ratio owned by the Company in that joint venture was 13%.

On October 23, 2008, Trio-Tech (Chongqing) Co., Ltd. entered into a Memorandum Agreement with JiaSheng to purchase four units of commercial property and two units of residential property, totaling 1,391.70 square meters, at JiaSheng Jingyun Huafu Project located at No. 17 Puyun Avenue in Chongqing, China. The total purchase price was RMB 7,042, approximately \$1,031 based on the exchange rate as of December 31 2009 published by the Monetary Authority of Singapore. The Company made cash payment of RMB 3,612, or \$529, and offset the remaining purchase price for this commercial and residential property with the investment returns and investment income from the No. B48 property in the BeiPei district of Chongqing City. The Company has not received the title for this property as of the filing date of this Form 10-Q, as the seller is in the process of making the payments of all taxes due so that the documents can be received and the transfer can take place.

On October 23, 2008 Trio-Tech (Chongqing) Co., Ltd. entered into a lease agreement with JiaSheng for the six units purchased from JiaSheng pursuant to the Memorandum Agreement. The lease provides for a two year term with an annual rental income of RMB 1,392, or approximately \$204. The lease started on November 1, 2008 and generated a rental income of \$51 and \$51 in the three and six months ended December 31, 2009. The depreciation expenses of the investment property in Chongqing, China were \$23 and \$46 and the depreciation expenses of our office and office furniture in Chongqing, China were \$2 and \$4 in the three and six months ended December 31, 2009, based on the

exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore.

Table of Contents

In August 2009, Trio-Tech (Chongqing) Co., Ltd. received a notice from JiaSheng that the completion of the project has been delayed due to certain reasons. In addition, the price of the property was adversely affected by the slow down of demand in real estate property in China. JiaSheng has decided to slow down the project and delay the sale of the property until the price recovered. Even though there has been a slow down in the anticipated sale of the property, the Company continues to believe that their cost basis in the property is less than the market value. However, the estimated market value is a significant estimate and it could materially change in the short term. The Company will continue to evaluate these estimates on a quarterly basis.

In the second quarter of 2010, Trio-Tech (Chongqing) Co., Ltd. received a third return on investment principal of RMB 1,988, or \$291 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore, and investment income of RMB 1,312, or \$192, from JiaSheng. The investment income was part of the return on investment based on the total investment amount of RMB 10,000, or \$1,464. After the third return of investment, the equity ratio owned by the Company in that joint venture was 10%. In second quarter of fiscal 2010 Trio-Tech (Chongqing) Co., Ltd. made a payment of RMB 209 or approximately \$31 for the tax related with the property purchased on October 23, 2010.

## 11. BUSINESS SEGMENTS

The Company has historically operated in three segments; the testing service industry (which performs structural and electronic tests of semiconductor devices), the designing and manufacturing of equipment (which equipment tests the structural integrity of integrated circuits and other products) and distribution of various products from other manufacturers in Singapore and Southeast. In June 2007, Trio-Tech International Pte., Ltd. established a subsidiary in Chongqing, China. As the Company's investment in the real estate business in Chongqing, China exceeds more than 10% of the combined assets of all operating segments in the fourth quarter of fiscal 2009, the Company reported its investment in China as a separate Real Estate Segment, to be in compliance with ASC Topic 280, Segment Reporting. On July 1, 2009, the Company's 55% owned SHI International Pte., Ltd subsidiary acquired 100% interest in PT SHI Indonesia, pursuant to the Share Purchase Agreement dated April 7, 2009. PT SHI Indonesia is an Indonesia-based enterprise providing fabrication of large and complex structures and related services for the offshore oil and gas industries. Beginning on July 1, 2009, the operating results of this subsidiary were included in the condensed consolidated statements of the Company for the three and six months ended December 31, 2009 and fabrication services are included in the Company's new segment "Fabrication Services".

The revenue allocated to individual countries was based on where the customers were located. The allocation of the cost of equipment, the current year investment in new equipment and depreciation expense have been made on the basis of the primary purpose for which the equipment was acquired.

All inter-segment sales were sales from the manufacturing segment to the testing and distribution segments. Total inter-segment sales were \$1 and \$11 for the three and six months ended December 31, 2009 and 2008, respectively. Corporate assets mainly consisted of cash and prepaid expenses. Corporate expenses mainly consisted of salaries, insurance, professional expenses and directors' fees.



Table of Contents

The following segment information is unaudited for the six months ending December 31, 2009:

## Business Segment Information:

|                            | Six months<br>Ended<br>Dec. 31, | Net<br>Sales | Operating<br>(Loss)<br>Income | Total<br>Assets | Depr.<br>and<br>Amort. | Capital<br>Expenditures |
|----------------------------|---------------------------------|--------------|-------------------------------|-----------------|------------------------|-------------------------|
| Manufacturing              | 2009                            | \$ 6,699     | \$ (582 )                     | \$ 3,341        | \$ 100                 | \$ 6                    |
|                            | 2008                            | 5,800        | (586 )                        | 1,400           | 117                    | 95                      |
| Testing Services           | 2009                            | 5,263        | (191 )                        | 21,542          | 747                    | 4,284                   |
|                            | 2008                            | 5,826        | (811 )                        | 24,949          | 949                    | 946                     |
| Distribution               | 2009                            | 302          | 36                            | 116             | 3                      | -                       |
|                            | 2008                            | 166          | 37                            | 49              | 2                      | 2                       |
| Real Estate                | 2009                            | 328          | 207                           | 3,445           | 51                     | -                       |
|                            | 2008                            | 257          | 238                           | 3,020           | 35                     | 1,031                   |
| Fabrication<br>services    | 2009                            | 704          | (825 )                        | 1,860           | 171                    | 856                     |
|                            | 2008                            | -            | -                             | -               | -                      | -                       |
| Corporate &<br>Unallocated | 2009                            | -            | 226                           | 76              | -                      | -                       |
|                            | 2008                            | -            | 52                            | 61              | -                      | -                       |
| Total Company              | 2009                            | \$ 13,296    | \$ (1,129 )                   | \$ 32,054       | \$ 1,072               | \$ 5,146                |
|                            | 2008                            | \$ 12,049    | \$ (1,070 )                   | \$ 29,479       | \$ 1,103               | \$ 2,074                |

Table of Contents

The following segment information is unaudited for the three months ending December 31, 2009:

## Business Segment Information:

|                            | Quarter<br>Ended<br>Dec. 31, | Net<br>Sales | Operating<br>(Loss)<br>Income | Total<br>Assets | Depr.<br>and<br>Amort. | Capital<br>Expenditures |
|----------------------------|------------------------------|--------------|-------------------------------|-----------------|------------------------|-------------------------|
| Manufacturing              | 2009                         | \$ 2,984     | \$ (411 )                     | \$ 3,341        | \$ 50                  | \$ 4                    |
|                            | 2008                         | 2,754        | (142 )                        | 1,400           | 57                     | 11                      |
| Testing Services           | 2009                         | 2,592        | 36                            | 21,542          | 375                    | 70                      |
|                            | 2008                         | 2,728        | (589 )                        | 24,949          | 467                    | 371                     |
| Distribution               | 2009                         | 155          | 22                            | 116             | 2                      | -                       |
|                            | 2008                         | 80           | 6                             | 49              | 1                      | 2                       |
| Real Estate                | 2009                         | 260          | 193                           | 3,445           | 26                     | -                       |
|                            | 2008                         | 243          | 224                           | 3,020           | 22                     | 1,031                   |
| Fabrication<br>services    | 2009                         | 200          | (553 )                        | 1,860           | 120                    | 501                     |
|                            | 2008                         | -            | -                             | -               | -                      | -                       |
| Corporate &<br>Unallocated | 2009                         | -            | 112                           | 76              | -                      | -                       |
|                            | 2008                         | -            | 104                           | 61              | -                      | -                       |
| Total Company              | 2009                         | \$ 6,191     | \$ (601 )                     | \$ 32,054       | \$ 573                 | \$ 575                  |
|                            | 2008                         | \$ 5,805     | \$ (397 )                     | \$ 29,479       | \$ 547                 | \$ 1,415                |

## 12. NON-CONTROLLING INTEREST

As of July 1, 2009, the Company implemented ASC Topic 810 which modifies the accounting and disclosure requirements for subsidiaries which are not wholly-owned. In accordance with the provisions of ASC Topic 810, the Company has reclassified the non-controlling interest previously reflected between long-term liabilities and stockholders' equity and included the amount as a component of stockholders' equity in the accompanying condensed consolidated balance sheets. Additionally, the Company has presented the net income attributable to the Company and the non-controlling ownership interests separately in the accompanying condensed consolidated financial statements.

Non-controlling interest represents the minority stockholders' share of 45% of the equity of Trio-Tech Malaysia, also 45% interest in the newly formed company SHI, a subsidiary of Trio-Tech International Pte. Ltd., which is a subsidiary of the Company.

Table of Contents

## 13. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued ASC 820 Fair Value Measurements and Disclosures (formerly Statement of Financial Accounting Standard No. 157 Fair Value Measurements). ASC 820 provides enhanced guidance for using fair value to measure assets and liabilities. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants in the market in which the reporting entity transacts its business. ASC 820 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. Effective July 1, 2008, the Company adopted the provisions of ASC 820 as it relates to financial assets and financial liabilities. The adoption of ASC 820 did not have a material effect on our results of operations, financial position or liquidity.

The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009:

|                                     | As of<br>December 31, 2009 | Basis of Fair Value Measurements   |   |  |
|-------------------------------------|----------------------------|--|---|--|
|                                     |                            | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |
| <b>Assets</b>                       |                            |  |   |  |
| Short-term deposits                 | \$ 1,371                   | \$ 1,371   | \$ -  | \$ -   |
| Restricted deposits                 | \$ 3,570                   | \$ 3,570   | \$ -  | \$ -   |
| Total assets measured at fair value | \$ 4,941                   | \$ 4,941   | \$ -  | \$ -   |
| Percentage of total assets          | 15.4%                      | 15.4%  | -   | -  |

As noted above, the fair value of the Company's term deposits is determined using quoted market prices in active markets. Since the Company's term deposits are fixed rate deposits, there is an active, readily tradable market value based on quoted prices. We based our estimates on such prices (Level 1 pricing) as of December 31, 2009, or the measurement date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an on-going basis. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation of these term deposits does not entail a significant degree of judgment.

## 14. BANK LOANS PAYABLE

On August 24, 2008, Trio-Tech Malaysia Sdn. Bhd. entered a new loan agreement with a local bank in Malaysia obtaining a long-term loan of RM 9,650, or approximately \$2,817 offered by a financial institution in Malaysia. This non-revolving long-term loan has a term of fifteen years from the first draw down with a fixed interest rate of 1.7% per annum. The purpose of this loan was to purchase a building for a purchase price of RM 12,450 (Malaysian ringgit) or approximately \$3,634 (U.S. dollars), for its testing operations. Prior to this purchase, this property was under lease rental by the Company. On August 10, 2009, the Company began to draw down the money on this loan. The building was purchased in first quarter fiscal 2010.



Table of Contents

Bank loans payable consisted of the following:

|  | Dec. 31, 2009 | June 30, 2009 |
|--|---------------|---------------|
| Note payable denominated in Malaysian Ringgit to a commercial bank for infrastructure investment, maturing in August 2024, bearing interest at the bank's prime rate (1.7% at December 31, 2009) per annum, with monthly payments of \$16 principal plus interest through August 2024, collateralized by the acquired building.  | 2,762         | -             |
| Note payable denominated in Singapore dollars to a commercial bank for expansion plans in Singapore and China, maturing in August 2010, bearing interest at the bank's prime rate (3.523% and 6.61% at December 31, 2009 and 2008 per annum), with monthly payments of principal plus interest of \$124 through June 2009, collateralized by Corporate Guarantee. This note payable is secured by cash deposits of \$3,420 as at December 31, 2009, which is reported as non-current assets, restricted term deposits on the consolidated balance sheet. | 881           | 1,503         |
| Current portion  | (1,132 )      | (1,266 )      |
| Long term portion of bank loans payable  | \$ 2,511      | \$ 237        |

Future minimum payments (including interest) at December 31, 2009 were as follows:

|                                   |          |
|-----------------------------------|----------|
| 2011                              | \$ 1,132 |
| 2012                              | 197      |
| 2013                              | 197      |
| 2014                              | 197      |
| 2015                              | 197      |
| Thereafter                        | 591      |
| Total obligations and commitments | \$ 2,511 |

## 15. SUBSEQUENT EVENT

In January 2010, Trio-Tech (Chongqing) Co., Ltd. entered into a Memorandum Agreement with ChongQing JiangZhun Real Estate Development Co Limited to purchase eight units of commercial property, totaling 1,002.26 square meters, at 32 Bin Jiang Road, Zhong Country in Chongqing for a total sum of RMB 3,600 approximately \$527. Trio-Tech (Chongqing) Co., Ltd. has made a cash payment from the funds generated from its return on investment and rental income.

In January 2010 Trio-Tech (Chongqing) Co., Ltd. entered into a lease agreement with ChongQing JiangZhun Real Estate Development Co Limited for the eight units purchased from ChongQing JiangZhun Real Estate Development Co Limited pursuant to the Memorandum Agreement. The lease provides for a one year term with an annual rental income of RMB 720, or approximately \$105. The lease started on January 8, 2010.

In January 2010 Trio-Tech (Chongqing) Co., Ltd. entered into a Memorandum Agreement with JiaSheng Property Development Co., Ltd. ("JiaSheng") to extended the agreement entered on August 27, 2007. The agreement has been extend up to April 25, 2010 for a consideration of RMB 1,250 or approximately \$183 as a guaranteed return on investment, based on the exchange rate on December 31, 2009 published by the Monetary Authority of Singapore.



Table of Contents

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

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

The following should be read in conjunction with the condensed consolidated financial statements and notes in Item I above and with the audited consolidated financial statements and notes, and with the information under the headings "Risk factors" and "Management's discussion and analysis of financial condition and results of operations" in the most recent Annual Report on Form 10-K.

Overview

Founded in 1958, Trio-Tech International primarily provides third-party semiconductor testing and burn-in services primarily through its laboratories in Southeast Asia. The Company also designs, manufactures and markets equipment and systems, and distributes semiconductor processing and testing equipment manufactured by others. Trio-Tech International has historically operated in three distinct segments: Testing Services, Manufacturing and Distribution. In June 2007, Trio-Tech International Pte., Ltd. established a subsidiary Trio-Tech (Chongqing) Co., Ltd. ("TTCQ") in Chongqing, China to develop certain real estate projects. As our investment in the real estate business in Chongqing, China exceeded more than 10% of our combined assets of all operating segments in the fourth quarter of fiscal 2009, we reported our investment in China as a separate Real Estate Segment to be in compliance and in accordance with the ASC Topic 280 Segments Reporting. In April 2009, Trio-Tech International Pte., Ltd. set up a new entity, SHI International Pte., Ltd. ("SHI"), in which Trio-Tech International Pte., Ltd. holds 55% of the ownership interest. Subsequently SHI acquired 100% interest in PT SHI Indonesia, a company in Batam, Indonesia providing fabrication services to the oil and gas industries. The Company has reported this business as a fifth segment, as the nature of these business activities is different from our other business segments.

Geographically, the Company operates in U.S., Singapore, Malaysia, Thailand, China and Indonesia. Its major operation activities are conducted in our Singapore and Malaysia operations. The Company's customers for semi-conductor related activities are mainly concentrated in Southeast Asia and they are either semiconductor chip manufacturers or testing facilities that purchase our testing equipment.

Testing

The Company provides third-party semiconductor testing and burn-in services primarily through our laboratories in Southeast Asia.

Recently, there has been widespread concern over the instability of the financial markets and their influence on the global economy. Management believes that, as a result of the credit market crisis and other macro-economic challenges currently affecting the global economy, the orders from our customers in our testing operations were reduced during the first six months of fiscal 2010.

The Company plans to expand its market share in the semiconductor industry. In the three months ended September 30, 2009, the Malaysian subsidiary acquired the leased property in Malaysia in an effort to assure the prospects of long term support for our customers in Malaysia. The Company's Suzhou operation is in the process of transforming from a production based operation to an engineering service based operation.

## Table of Contents

### Manufacturing

The Company's manufacturing segment manufactures Artic Temperature Controlled Wafer Chucks, which are used for test, characterization and failure analysis of semiconductor wafers, Wet Process Stations, which wash and dry wafers at a series of 100 to 300 additional processing steps after the etching or deposition of integrated circuits, and other microelectronic substrates in what is commonly called the "front-end," or creation, of semiconductor circuits. Additionally, it also manufacture centrifuges, leak detectors, HAST (Highly Accelerated Stress Test) systems and "burn-in" systems that are used primarily in the "back-end" of the semiconductor manufacturing process to test finished semiconductor devices and electronic components.

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

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

### Distribution

The Company's distribution segment operates primarily in Southeast Asia. This segment markets and supports distribution of our own manufactured equipment in addition to distributing complementary products supplied by other manufacturers that are used by our customers and other semiconductor and electronics manufacturers. It expanded the distribution business to include a strategic business unit mainly to serve as a distributor of electronic components to customers. It is the strategy of management to focus on the sales of our own manufactured products. Management believes this will help us to reduce our exposure to multiple risks arising from being a mere distributor of manufactured products from others.

### Real Estate

The Company's Real Estate segment, TTCQ, operates in Chongqing China.

In fiscal year 2008, TTCQ jointly developed a piece of property with 24.91 acres with JiaSheng Property Development Co., Ltd. (JiaSheng) located in Chongqing City, China, which is intended for sale after the completion of development.

In fiscal year 2009, TTCQ purchased four units of commercial property and two units of residential property, totaling 1,391.70 square meters located in Chongqing, China from Jin Yun Hua Fu. The total purchase price was RMB 7,042, equivalent to approximately \$1,031 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore System. On October 23, 2008, the Company entered into a lease agreement with JiaSheng for the six units purchased from JiaSheng pursuant to the Memorandum Agreement. The lease provides for a two year term with an annual rental income of RMB 1,392, or approximately \$204 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore. The lease started on November 1, 2008 and generated a rental income of \$51 and \$102 for the three and six months ended December 31, 2009, compared with \$34 and \$34 for the three and six months ended December 31, 2008, respectively.



## Table of Contents

### Fabrication Services

On July 1, 2009, SHI International Pte., Ltd., a 55% owned subsidiary of the Company, consummated the acquisition of a 100% interest in PT SHI Indonesia for the purchase price of \$113 pursuant to a Share Purchase Agreement dated April 7, 2009. PT SHI Indonesia is an Indonesia-based enterprise providing fabrication of large and complex equipment employed to process oil and gas and for temporary storage of the oil prior to transshipment, and related services for the offshore oil and gas industries. Our objective for acquiring this business was to diversify our business, reduce the risk associated with sole industry focus, and enhance the Company's future growth opportunities.

Indonesia is one of the largest oil and gas producers in Southeast Asia, as well as a major exporter of liquefied natural gas in Asia. It has sufficient oil and gas reserves available for exploration and production for several years to come. As such, management is of the view that Indonesia will offer great potential for a growth in demand for equipment and machinery for the oil and gas industries. Management believes that the demand for oil and gas has been increasing steadily for the past few years, thereby generating an increase in investments in the oil and gas industries to discover and explore new production locations to meet such demand. Management believes that this may lead to an increase in capital spending for oil and gas exploration and development, as well as capital spending on technology advances to improve the success rate in oil and gas discovery at lower costs. In addition, as offshore oil and gas exploration moves into more challenging deep waters and locations where infrastructure is lacking, larger and more complex equipment may be needed to support the production facility.

In the three and six months ended December 31, 2009, this subsidiary generated revenue of \$200 and \$704, respectively, and an operating loss of \$553 and \$825, respectively, among which \$121 and \$173, respectively, was for depreciation expenses.

### Second Quarter Fiscal 2010 Highlights

Total revenue increased by \$386, or 6.6%, to \$6,191 for the second quarter of fiscal 2010, compared with revenue of \$5,805 for the second quarter of fiscal 2009.

Manufacturing segment revenue increased by \$230, or 8.4%, to \$2,984 for the second quarter of fiscal 2010, compared to \$2,754 for the second quarter of fiscal 2009.

Testing segment revenue decreased by \$136, or 5.0%, to \$2,592 for the second quarter of fiscal 2010, compared to \$2,728 for the second quarter of fiscal 2009.

Fabrication services segment generated revenue of \$200 in the second quarter of fiscal 2010 with an operating loss of \$553. As this is the first year of operations for this segment, there is no comparison for the same period last fiscal year.

Distribution segment revenue increased by \$75, or 93.8%, to \$155 for the second quarter of fiscal 2010, compared to \$80 for the second quarter of fiscal 2009.

Real estate segment revenue increase by \$17, or 7.0%, to \$260 for the second quarter of fiscal 2010, compared to \$243 for the second quarter of fiscal 2009.

Loss from operations increased by \$204 for the second quarter of fiscal 2010 from \$397 for the second quarter of fiscal 2009 to \$601 for the second quarter of fiscal 2010.

Gross profit margin decreased by 11.4% to 15.2% for the second quarter of fiscal 2010 from 26.6% for the second quarter of fiscal 2009.

Selling expenses as a percentage of revenue increased 0.1% to 1.5% for the second quarter of fiscal 2010 from 1.4% for the second quarter of fiscal 2009.



Table of Contents

General and administrative expenses as a percentage of revenue increased by 0.4% from 22.8% of revenue for the second quarter of fiscal 2009 to 23.2% of revenue for the second quarter of fiscal 2010.

Net loss increased by \$158, or 37.1%, to \$584 for the second quarter of fiscal 2010, compared to \$426 for the second quarter of fiscal 2009

## Results of Operations and Business Outlook

The following table sets forth our revenue components for the six and three months ended December 31, 2009 and 2008, respectively.

## Revenue Components

|                      | Six Months Ended<br>December 31, |         | Three Months Ended December<br>31, |         |
|----------------------|----------------------------------|---------|------------------------------------|---------|
|                      | 2008                             | 2007    | 2008                               | 2007    |
| Net Sales:           |                                  |         |                                    |         |
| Manufacturing        | 50.4 %                           | 48.1 %  | 48.2 %                             | 47.4 %  |
| Testing              | 39.6 %                           | 48.3 %  | 41.9 %                             | 47.0 %  |
| Fabrication Services | 5.3                              | -       | 3.2                                | -       |
| Distribution         | 2.2 %                            | 1.4 %   | 2.5 %                              | 1.4 %   |
| Real Estate          | 2.5                              | 2.2     | 4.2                                | 4.2     |
| Total                | 100.0 %                          | 100.0 % | 100.0 %                            | 100.0 % |

Net sales for the three months and six months ended December 31, 2009 were \$6,191 and \$13,296, respectively, an increase of \$386 and \$1,247, respectively, when compared to net sales for the same periods of the prior year. As a percentage, net sales increased by 6.6% and 10.3% for the three and six months ended December 31, 2009, respectively, when compared to total net sales for the same periods of the prior year.

Net sales into and within China and the Southeast Asia regions and other countries (except sales into and within the United States) increased for the three months ended December 31, 2009, compared with \$4,734 for the same period of last fiscal year. The increase was primarily due to an increase in sales in the fabrication services segment in Indonesia operations, manufacturing segment and distribution segment in Singapore operations. Net sales into and within the United States were \$225, a decrease of \$846, or 79.0%, compared to the same quarter last fiscal year, due to a decrease in market demand for our products in the U.S. market, which management believes is the result of the negative impact of the financial crisis in the United States

Net sales into and within China and the Southeast Asia regions and other countries (except sales into and within the United States) increased by \$3,548 to \$12,376 and by \$1,232, or 26.0%, to \$5,966 for the six months and three months ended December 31, 2009, compared with the same period of last fiscal year. The increase was primarily due to an increase in sales in the fabrication services segment in our Indonesia operations, manufacturing and distribution segment in Singapore and Malaysia operations. Net sales into and within the United States were \$920, and \$225 for the six months and three months ended December 31, 2009, respectively, a decrease of \$2,301 and \$846, respectively, when compared to the same periods of the prior year.

Net sales for the period ended December 31, 2009 can be discussed within the five segments as follows:

Table of Contents

Manufacturing Segment

Net sales in the manufacturing segment as a percentage of total net sales were 48.2% and 47.4% for the three and six months ended December 31, 2009, respectively, an increase of 0.8% and 2.3% of total net sales, respectively, when compared to the same periods of the prior year. The absolute amount of net sales was \$2,984 and \$6,699 for the three and six months ended December 31, 2009, respectively, an increase of \$230 and \$899, respectively, when compared to the same periods of the prior year. The increase in revenue generated by the manufacturing segment was due to an increase in demand for our products from one of our major customers in Singapore.

Testing Services Segment

Net sales in the testing segment as a percentage of total net sales were 41.9% and 39.6% for the three and six months ended December 31, 2009, respectively, a decrease of 5.1% and 8.8%, respectively, of total net sales when compared to the same periods of the prior year. The absolute amount of net sales in the testing segment decreased by \$136 to \$2,592 and by \$563 to \$5,263 for the three and six months ended December 31, 2009, respectively, compared to the same periods of fiscal 2008. The decrease in revenue generated by the testing segment was due to a decrease in testing orders from one of our major customers in our Thailand operations and in our Singapore operations. Demand for testing services varies from country to country depending on changes taking place in the market and our customers' forecasts. Because it is difficult to accurately forecast fluctuations in the market, management believes it is necessary to maintain testing facilities in close proximity to our customers in order to make it convenient for them to send us their newly manufactured parts for testing and to enable us to maintain a share of the market.

Fabrication Services Segment

As a percentage of total net sales, the revenue generated by the fabrication services segment accounted for 3.2% and 5.3% of total net sales for the three and six months ended December 31, 2009, respectively. The absolute amount of net sales was \$200 and \$704 for the three and six months ended December 31, 2009, respectively. This segment had an operating loss of \$553 and \$825, respectively for the three and six months ended December 31, 2009 mainly due to idle plant capacity and the inability to absorb fixed costs by revenues generated. This being the first year of operations for this segment, management is exploring new business to optimize the capacity utilization which would assist in enabling the segment to be profitable.

Distribution Segment

Net sales in the distribution segment accounted for 2.5% and 2.2% of total net sales for the three and six months ended December 31, 2009, respectively, an increase of 1.1% and 1.1% compared to the same periods in fiscal 2009. The absolute amount of net sales increased by \$75 to \$155 and by \$136 to \$301 for the three and six months ended December 31, 2009, respectively, compared to the same periods in fiscal 2009. Product volume for the distribution segment depends on sales activities such as placing orders, queries on products and backlog. Equipment and electronic component sales are very competitive, as the products are readily available in the market.

Table of Contents

Real Estate Segment

The real estate segment accounted for 4.2% and 2.5% of total net sales for the three and six months ended December 31, 2009, respectively, an increase of 0.0% and 0.3% compared to the same periods in fiscal 2009. The absolute amount of net sales in the real estate segment increased by \$17 to \$260 and by \$71 to \$328 for the three and six months ended December 31, 2009, respectively, compared to the same periods in fiscal 2009. The Company entered into a lease agreement with JiaSheng for the six units purchased from JiaSheng pursuant to the Memorandum Agreement on October 23, 2008, hence the rental period in fiscal 2010 is longer than the rental period in fiscal 2009 resulting in an increase in revenue generated by the real estate segment.

Uncertainties and Remedies

There are several influencing factors which create uncertainties when forecasting performance, such as the ever-changing nature of technology, specific requirements from the customer, decline in demand for certain types of burn-in devices or equipment and decline in demand for testing services, and other similar factors. Based on a number of economic indicators, it appears that growth in global economic activity has slowed substantially. At the present time, the rate at which the global economy will slow has become increasingly uncertain. A continued slowing of global economic growth, and, in particular, in the United States, will likely have a negative impact on our growth and results of operations. One factor is the highly competitive nature of the semiconductor industry. Another is that some customers are unable to provide a forecast of the products required in the upcoming weeks; hence it is difficult to plan for the resources needed to meet these customers' requirements due to short lead time and last minute order confirmation. This will normally result in a lower margin for these products, as it is more expensive to purchase materials in a short time frame. However, the Company has taken certain actions and formulated certain plans to deal with and to help mitigate these unpredictable factors. For example, in order to meet manufacturing customers' demands upon short notice, the Company maintains higher inventories, but continues to work closely with its customers to avoid stock piling. We continue to cut costs by upgrading some of our existing facilities to cater to the changing requirements of customers and by maintaining a lean headcount, while still keeping quality high so as to sell new products at a competitive price. We have also been improving customer service from staff by keeping our staff up to date on the newest technology and stressing the importance of understanding and meeting the stringent requirements of our customers. Finally, the Company is exploring new markets and products, looking for new customers, and upgrading and improving burn-in technology while at the same time searching for improved testing methods of higher technology chips.

There are several influencing factors which create uncertainties when forecasting performance of our real estate segment, such as inflation in China, currency fluctuations and devaluation, changes in Chinese laws, regulations or their interpretation.

Fast change in the technology for fabrication services influences our ability to forecast performance of our fabrication services segment.

Table of Contents

Comparison of the Second Quarter Ended December 31, 2009 (“Q2 2010”) and December 31, 2008 (“Q2 2009”)

The following table sets forth certain consolidated statements of income data as a percentage of net sales for the second quarters of fiscal 2010 and 2009, respectively:

|                            | Three Months Ended<br>December 30, |    |       |    |
|----------------------------|------------------------------------|----|-------|----|
|                            | 2009                               |    | 2008  |    |
| Net Sales                  | 100.0                              | %  | 100.0 | %  |
| Cost of sales              | 84.8                               | %  | 73.4  | %  |
| Gross Margin               | 15.2                               | %  | 26.6  | %  |
| Operating expenses         |                                    |    |       |    |
| General and administrative | 23.2                               | %  | 22.8  | %  |
| Selling                    | 1.5                                | %  | 1.4   | %  |
| Research and development   | 0.2                                | %  | 0.2   | %  |
| Impairment loss            | 0.0                                | %  | 9.0   | %  |
| Gain on disposal of PP&E   | 0.0                                | %  | 0.1   | %  |
| Total operating expenses   | 24.9                               | %  | 33.5  | %  |
| Loss from Operations       | (9.7                               | %) | (6.9  | %) |

#### Overall Gross Margin

Overall gross margin as a percentage of revenue decreased by 11.4% to 15.2% for the three months ended December 31, 2009, from 26.6% in the second quarter of our last fiscal year primarily due to lower gross margin generated by our fabrication service segment.

Gross profit margin as a percentage of revenue in the manufacturing segment decreased by 10.5% from 21.0% in the second quarter of fiscal 2009 to 10.5% in the second quarter of fiscal 2010. This decrease is mainly due to a reduction of production volume in our Singapore operations, which resulted in a higher percentage of fixed costs. In absolute amounts, gross profits decreased by \$266, to \$313 for the three months ended December 31, 2009.

Gross profit margin as a percentage of revenue in the testing segment increased from 26.3% for the three months ended December 31, 2008 to 33.2% for the three months ended December 31, 2009. In terms of dollar amount, gross margin in the testing segment in the second quarter of fiscal 2010 was \$861, an increase of \$144, compared to \$717 in the same period of fiscal 2009. The increase in the gross margin was primarily due to a decrease in director labor costs as a result of reduced employee headcount and rental expenses in our Singapore and Malaysia operations.

Gross profit margin as a percentage of revenue in the distribution segment decreased by 4.2% to 27.1% for the three months ended December 31, 2009, from 31.3% for the three months ended December 31, 2008. In terms of dollar amount, gross margin in the distribution segment in the second quarter of fiscal 2010 was \$42, an increase of \$17, compared to \$25 in the same period of fiscal 2009. The decrease in the gross profit as a percentage of sales was due to an increase in material cost in the second quarter of fiscal 2010 compared to the same quarter of fiscal 2009.

Gross profit margin as a percentage of revenue in the real estate segment was 86.2% for the second quarter of fiscal 2010 as compared to 92.2% for the same period in the fiscal 2009. Depreciation expenses and taxes were the direct cost related with the rental revenue generated in the real estate segment. The gross margin in this segment is higher as depreciation is the only cost.



Table of Contents

Gross profit margin as a percentage of revenue in the fabrication services segment was negative 249.5% for the three months ended December 31, 2009. In terms of dollar amount, negative gross margin in fabrication segment in the second quarter of fiscal 2010 was \$490, for the three months ended December 31, 2009. The cost of sales of this subsidiary mainly consisted of rental expenses of the yard, depreciation expenses and cost of direct labor. As this subsidiary started its operating activities in November 2009, and orders from customers are few, the revenue could not cover the entire fixed cost of the operation, resulting in negative gross margin due to underutilization of the plant capacity.

## Operating Expenses

Operating expenses for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited)  | Three Months Ended December 31, |       |
|----------------------------|---------------------------------|-------|
|                            | 2009                            | 2008  |
| General and administrative | 1,437                           | 1,324 |
| Selling                    | 95                              | 83    |
| Research and development   | 10                              | 10    |
| Impairment loss            | -                               | 520   |
| (Gain) on disposal of PP&E | -                               | 5     |
| Total                      | 1,542                           | 1,942 |

General and administrative expenses increased by \$113, or 8.5%, from \$1,324 to \$1,437 for the three months ended December 31, 2009 compared to the same period of last fiscal year.

The increase in general and administrative expenses was mainly due to a reversal of \$75 in bonus provision and annual leave provision in the prior period which is the second quarter of fiscal 2009. During the second quarter of fiscal year 2009, Singapore operations reversed approximately \$159 in accruals based on new and updated information. This was related to bonuses provision and annual leave provision that were included in accrued expenses at September 30, 2008.

The Company does not have any legal or contractual obligation for the payment of bonuses. Accordingly, the over-provision of \$159 was reversed during the second quarter of fiscal 2009. These reversals decreased the cost of sales by \$84 and decreased general and administrative expenses by \$75.

The financial results of the Singapore operations, group objectives and individual employee performance set up at the beginning of fiscal year 2009 and employee headcount on June 30, 2008. As our Singapore operations suffered higher than expected operating losses during the six months ended December 31, 2008, management believed that the Singapore operations would not be able to meet the criteria of the initial financial objectives created at the beginning of fiscal 2009.

We did not have any such reversals in the second quarter of fiscal 2010, in addition during the three months ended December 31, 2009 there were reduction in headcounts.

In second quarter of fiscal 2010 the newly acquired company PT SHI Indonesia incurred \$54 in general and administrative expenses.

Selling expenses increased by \$12, or 14.5%, for the three months ended December 31, 2009, from \$83 to \$95 compared to the same quarter of fiscal 2009, mainly due to an increase in commission expenses as a result of more commissionable sales in the distribution segment.



In the second quarter of fiscal 2010, research and development expenses were \$10, the same as the second quarter of fiscal 2009.

There was no impairment of fixed assets in the three months ended December 31, 2009. The impairment loss was \$520 for the three months ended December 31, 2008. The impairment loss of \$520 consisted of a loss of \$224 for certain testing equipment located in our Suzhou operations and \$296 related to the fixed assets located in our Shanghai operation in China.

-32-

---

Table of Contents

We did not dispose of any property, plant and equipment during the second quarter of fiscal year 2010. In the second quarter of fiscal 2009, loss on disposal of property, plant and equipment was \$5, which mainly resulted from the disposal of certain idle fixed assets at a loss in the Singapore operation.

## Loss from Operations

Loss from operations increased by \$204, or 51.4%, from \$397 for the three months ended December 31, 2008 to \$601 for the three months ended December 31, 2009, mainly due to the decrease in gross margins, as previously discussed.

## Interest Expense

Interest expense for the second quarter of each of fiscal 2010 and 2009 was as follows:

| (In Thousands, unaudited) | Three Months Ended December 31, |      |
|---------------------------|---------------------------------|------|
|                           | 2009                            | 2008 |
| Interest expense          | 55                              | 46   |

Interest expense increased by \$9 for the three months ended December 31, 2009 to \$55 from \$46 for the three months ended December 30, 2008, mainly due to the new loan borrowed by our Malaysia operations for the purchase of the factory and office building there. We are trying to keep our debt at a minimum in order to save financing costs. Our credit rating provides us with ready and adequate access to funds in global markets. As of December 31, 2009, the Company had an unused line of credit of \$7,407.

## Other Income

Other income for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Three Months Ended<br>December 31, |      |
|---------------------------|------------------------------------|------|
|                           | 2009                               | 2008 |
| Other Income              | 146                                | 131  |

Other Income increase by \$15 for the three months ended December 31, 2009 from \$131 in the same quarter of last fiscal year to \$146.

This was primarily due to:

(1) an increase in the currency transaction gains of \$54 which occurred in the newly acquired Indonesian company (PT SHI) to the extent of \$79 and a currency transaction loss of \$25 from the Singapore operations.

(2) interest income was grouped under "other income" which decreased by \$32 from \$47 for the three months ended December 31, 2009, to \$15 for the same period in fiscal 2009.

## Income Tax

Income tax expenses for the three months ended December 31, 2009 was \$9, an increase of \$71, compared to an income tax benefits of \$62 for the same quarter last fiscal year. The increase in income tax expenses was mainly due to deferred tax liability recorded by the Malaysia operations in the second quarter of fiscal 2010.

Table of Contents

## Non-controlling Interest

As of December 31, 2009, we held a 55% interest in Trio-Tech Malaysia and a 55% interest in. The non-controlling interest for the three months ended December 31, 2009, in the net income of subsidiary, was \$65, a decrease of \$111 compared to the non-controlling interest of \$176 for the same quarter of fiscal 2009. The decrease in the non-controlling interest was attributable to the reduced net income generated from the Malaysia testing operation due to a slow down in market demand from our customers there as compared to the same period in the prior fiscal year. The operating loss of \$553 generated by SHI Singapore also reduced our non-controlling interest in the net income of subsidiary.

## Net Loss

Net loss was \$584 in the second quarter of fiscal 2010, an increase of \$158 from a net loss of \$426 for the second quarter of fiscal 2009. The increase in net loss was mainly due to a decrease in gross margins and an increase in income tax expenses as previously discussed.

## Loss per Share

Basic and diluted loss per share for the three months ended December 31, 2009 increased by \$0.05 to \$0.18 from \$0.13 per basic and diluted per share in the same quarter of the prior fiscal year as a result of an increase in net loss.

## Segment Information

The revenue, gross margin and income from each segment for the second quarter of fiscal 2010 and the second quarter of fiscal 2009, respectively, are presented below. As the segment revenue and gross margin for each segment have been discussed in the previous section, only the comparison of income from operations is discussed below.

## Manufacturing Segment

The revenue, gross margin and loss from operations for the manufacturing segment for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Three Months Ended<br>December 31, |        |
|---------------------------|------------------------------------|--------|
|                           | 2009                               | 2008   |
| Revenue                   | 2,984                              | 2,754  |
| Gross margin              | 313                                | 579    |
| Loss from operations      | (411 )                             | (142 ) |

Loss from the manufacturing segment increased by \$269 to \$411 for the three months ended December 31, 2009 from \$142 in the same quarter last fiscal year. The increase in operating loss was attributable to a decrease in gross profit of \$266 and an increase in operating expenses of \$3. Operating expenses for the manufacturing segment were \$724 and \$721 for the three months ended December 31, 2009 and 2008, respectively.

Table of Contents

## Testing Segment

The revenue, gross margin and income/loss from operations for the testing segment for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited)     | Three Months Ended<br>December 31, |        |
|-------------------------------|------------------------------------|--------|
|                               | 2009                               | 2008   |
| Revenue                       | 2,592                              | 2,728  |
| Gross margin                  | 861                                | 717    |
| Income (loss) from operations | 36                                 | (589 ) |

Income from operations in the testing segment in the second quarter of fiscal 2010 was \$36, an increase of \$625, compared to a loss of \$589 in the same period of fiscal 2009. The increase in operating income was attributable to a decrease in operating expenses of \$481 and an increase in gross profits of \$144. Operating expenses were \$825 and \$1,306 for the three months ended December 31, 2009 and 2008, respectively. The decrease in operating expenses was mainly due to a decrease in payroll related expenses as a result of a decrease in employee headcounts in our Singapore and Malaysia operation.

## Distribution Segment

The revenue, gross margin and income from operations for the distribution segment for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Three Months Ended<br>December 31, |      |
|---------------------------|------------------------------------|------|
|                           | 2009                               | 2008 |
| Revenue                   | 155                                | 80   |
| Gross margin              | 42                                 | 25   |
| Income from operations    | 22                                 | 6    |

Income from operations in the distribution segment increased by \$16 to \$22 for the three months ended December 31, 2009, from \$6 for the three months ended December 31, 2008. The increase in operating income was mainly due to an increase in gross profit of \$17, which was offset by an increase in operating expenses of \$1. Operating expenses were \$20 and \$19 for the three months ended December 31, 2009 and 2008, respectively. The increase in operating expenses in fiscal 2010 was mainly due an increase in commission expenses incurred in the second quarter of fiscal 2010 as the result of an increase in commissionable sales.

Table of Contents

## Real Estate Segment

The revenue, gross margin and income from operations for the real estate segment for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Three Months Ended<br>December 31, |      |
|---------------------------|------------------------------------|------|
|                           | 2009                               | 2008 |
| Revenue                   | 260                                | 243  |
| Gross margin              | 224                                | 224  |
| Income from operations    | 193                                | 224  |

Income from operations in the real estate segment for the three months ended December 31, 2009 and 2008 was \$193 and \$224, respectively. The operating expenses were \$31 for the three months ended December 31, 2009. The operating expenses for the three months ended December 31, 2009 mainly consisted of depreciation expenses and payroll related expenses. The operating expenses for the three months ended December 30, 2008 were immaterial

## Fabrication Services

The revenue, gross margin and loss from operations for the fabrication services segment for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Three Months Ended December 31, |      |
|---------------------------|---------------------------------|------|
|                           | 2009                            | 2008 |
| Revenue                   | 200                             | --   |
| Gross margin              | (499 )                          | --   |
| Loss from operations      | (553 )                          | --   |

Loss from operations in the fabrication services segment was \$553. Operating expenses were \$54 for the three months ended December 31, 2009. This segment started operation July 1, 2009. As it is still in the development stage, the idle capacity and other fixed costs remain unabsorbed.. Management believes that our gross margin in the fabrication services segment will be improved in the future if we are able to increase our revenue and increase the utilization of our facilities.

## Corporate

The income from operations for corporate for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousand, unaudited) | Three Months Ended<br>December 31, |      |
|--------------------------|------------------------------------|------|
|                          | 2009                               | 2008 |
| Income from operations   | 112                                | 104  |

Table of Contents

Corporate operating income increased by \$8 to \$112 for the three months ended December 31, 2009, from \$104 in the same period last fiscal year. The increased operating income was mainly due to a decrease of \$25 in officers and executive compensation and a decrease of \$29 in audit expenses, which is offset by a decrease of \$58 in corporate management fee. In July 2009, we decreased the corporate management fee, which is based on the percentage of revenue imposed on all the subsidiaries, due to an increase in the revenue from our subsidiaries. The revenue percentage charged on subsidiaries is a reimbursement to the corporate office to cover its operating expenses. Management reviews this percentage periodically to make sure the amount charged is sufficient to cover its corporate expenses.

## Comparison of the Six Months Ended December 31, 2009 and 2008

The following table sets forth certain consolidated statements of income data as a percentage of net sales for the six months ended December 31, 2009 and 2008:

|                            | Six Months Ended<br>December 31, |    |       |    |
|----------------------------|----------------------------------|----|-------|----|
|                            | 2009                             |    | 2008  |    |
| Net Sales                  | 100.0                            | %  | 100.0 | %  |
| Cost of sales              | 83.9                             | %  | 76.4  | %  |
| Gross Margin               | 16.1                             | %  | 23.6  | %  |
| Operating expenses         |                                  |    |       |    |
| General and administrative | 22.8                             | %  | 27.6  | %  |
| Selling                    | 1.7                              | %  | 1.7   | %  |
| Research and development   | 0.1                              | %  | 0.2   | %  |
| Impairment loss            | 0.0                              | %  | 4.3   | %  |
| Gain on disposal of PP&E   | 0.0                              | %  | -1.3  | %  |
| Total operating expenses   | 24.6                             | %  | 32.5  | %  |
| Loss from Operations       | (8.5                             | %) | (8.9  | %) |

## Overall Gross Margin

Overall gross margin as a percentage of revenue decreased by 7.5% to 16.1% for the six months ended December 31, 2009, from 23.6% in the period of our last fiscal year primarily due to the decrease in the gross margin in the manufacturing, distribution and fabrication segment.

Gross profit margin as a percentage of revenue in the manufacturing segment decreased by 4.7% to 12.8% for the six months ending December 31, 2009 from 17.5% in the same period of fiscal 2009. The decrease in gross margin was mainly due to a reduction of production volume in our Singapore operations, which resulted in a higher percentage of fixed costs. In absolute amounts, gross profits decreased by \$161, to \$856 for the six months ended December 31, 2009 from \$1,017 for the six months ended December 31, 2008.

Gross profit margin as a percentage of revenue in the testing segment increased by 0.8% for the six months ended December 31, 2009, from 26.7% to 27.5% compared to the same period of last fiscal year. The increase in the gross margin was primarily due to a decrease in director labor costs as a result of reduced employee headcount and rental expenses in our Singapore and Malaysia operations, which was offset by a drop in testing volume. Significant portions of our operating costs are fixed in the testing segment, as service demands and factory utilization decrease, the fixed costs are spread over the decreased output, which deteriorates profit margin.. In terms of dollar amount, gross margin in the testing segment for the six months ended December 31, 2009 was \$1,448, a decrease of \$144, compared to \$1,554 in the same period of fiscal 2009, which is due to a decrease in testing volume in Thailand and Singapore operations.



Table of Contents

Gross profit margin as a percentage of revenue in the distribution segment decreased by 6.8% for the six months ending December 31, 2009 from 31.3% in the same period fiscal 2009 to 24.5%. The decrease in the gross profit as a percentage of sales was due to a decrease in the selling price of our equipment in the market. In terms of dollar amount, gross margin in the distribution segment for the six months ending December 31, 2009 was \$74, an increase of \$22, compared to \$52 in the same period of fiscal 2009.

Gross profit margin as a percentage of revenue in the real estate segment was 78.4% for the six months ending December 31, 2009 as compared to 92.6% in the same period of prior fiscal year. The direct cost related with the rental revenue generated in the real estate segment was mainly depreciation expenses. The direct cost of prior year was immaterial.

Gross profit margin as a percentage of revenue in the fabrication services segment was negative 69.6% for the six months ended December 31, 2009. This was mainly due to high depreciation expenses on the leased property, which was based on the remaining period of the lease term. The full plant capacity not being utilized due to lack of orders has left the fixed costs un-absorbed and adds on to the unfavorable gross margin.

## Operating Expenses

Operating expenses for the six months ended December 31, 2009 and 2008 were as follows:

| (In Thousands, unaudited)  | Six Months Ended December 31 |        |
|----------------------------|------------------------------|--------|
|                            | 2009                         | 2008   |
| General and administrative | 3,028                        | 3,339  |
| Selling                    | 227                          | 206    |
| Research and development   | 20                           | 20     |
| Impairment loss            | -                            | 520    |
| (Gain) on disposal of PP&E | (1 )                         | (154 ) |
| Total                      | 3,274                        | 3,931  |

General and administrative expenses decreased by \$311, or 9.3%, from \$3,339 for the six months ending Dec 31, 2008 to \$3,028 for the six months ended December 31, 2009. The decrease was due to a decrease in payroll related expenses as a result of the reduction in employee headcount in our Singapore operations.

Selling expenses increased by \$21, or 10.2%, for the six months ended December 31, 2009, from \$206 to \$227 compared to the same period of fiscal 2009, mainly due to an increase in commission expenses as a result of more commissionable sales in the distribution segment.

For the six months ending December 31, 2009, research and development expenses were \$20, the same as the prior period six months ending Dec 31, 2008.

There was no significant gain on disposal of property, plant and equipment during the six months ending December 31, 2009, compared to a gain of \$154 for the same period of fiscal year 2009. We disposed certain idle fixed assets at a gain in the Singapore operation in the six months ended December 31, 2008.

## Loss from Operations

Loss from operations increased by \$59, or 5.5%, from \$1,070 for the six months ended December 31, 2008 to \$1,129 for the six months ended December 31, 2009, mainly due a decrease in gross margin as previously discussed.





Table of Contents

## Interest Expense

Interest expense for the second quarters of fiscal 2010 and 2009 were as follows:

| (In Thousands, unaudited) | Six Months Ended December 31, |        |
|---------------------------|-------------------------------|--------|
|                           | 2009                          | 2008   |
| Interest expense          | (74 )                         | (104 ) |

Interest expense decreased by \$30 for the six months ended December 31, 2009 to \$74 from \$104 for the six months ended December 30, 2008. The decrease is mainly due to repayment of financial institutional loans and decrease in interest rate in our Singapore operations. We are trying to keep our debt at a minimum in order to save financing costs. Our credit rating provides us with ready and adequate access to funds in global markets. As of December 31, 2009, the Company had an unused line of credit of \$7,047.

## Other Income

Other income for the six months ending December 31, were as follows:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |      |
|---------------------------|----------------------------------|------|
|                           | 2009                             | 2008 |
| Other Income              | 143                              | 332  |

Other income decreased by \$189 for the six months ended December 31, 2009 from \$332 to \$143 in the same period of last fiscal year, primarily due to a decrease in the currency transaction gains. In first quarter of fiscal 2010 other expenses increased primarily due to an increase in currency transaction loss. Currency transaction loss increased by \$207 in first quarter, which was offset by other income increasing by \$15 in second quarter of fiscal 2010, from \$131 in the same quarter of last fiscal year to \$146. The increase was primarily due to an increase in the currency transaction gains and decrease in interest income, mainly due to currency transaction gains which increased by \$79 from Indonesian operations. Currency transaction loss of \$25 from Singapore operations and interest income decreased by \$32, for the three months ended December 31, 2009, compared to the same quarter of fiscal 2009.

## Income Tax

Income tax benefit for the six months ended December 31, 2009 was \$28, an increase of \$64, compared to an income tax expense of \$36 for the same quarter last fiscal year. The increase in income tax benefit was mainly due to a higher income tax benefit for the increased loss generated by our Singapore operations for the six months ended December 31, 2009.

## Non-controlling Interest

As of December 31, 2009, we held 55% interest in Trio-Tech Malaysia and 55% interest in SHI Singapore. The non-controlling interest for the six months ended December 31, 2009, in the net income of subsidiary, was \$103, a decrease of \$164 compared to the non-controlling interest of \$267 for the same period of fiscal 2009. The decrease in the non-controlling interest was attributable to the reduced net income generated from the Malaysia testing operation due to a slow down in market demand from our customers there, as compared to the same period in prior fiscal year.

Table of Contents

## Net Loss

Net loss was \$1,135 for the six months ended December 2009, a decrease of \$10 from \$1,145 for the six months ended December 31, 2008. The decrease in net loss was mainly due to a decrease in operating expenses as previously discussed.

## Loss per Share

Basic and diluted loss per share for the six months ended December 31, 2009 was \$0.35, the same for the six months ended December 31, 2008.

## Segment Information

The revenue, gross margin and income (loss) from each segment for the six months ended December 31, 2009 and 2008, respectively, are presented below. As the segment revenue and gross margin for each segment have been discussed in the previous section, only the comparison of income from operations is discussed below.

## Manufacturing Segment

The revenue, gross margin and loss from operations for the manufacturing segment for the six months ended December 31, 2009 and 2008 were as follows:

:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |        |
|---------------------------|----------------------------------|--------|
|                           | 2009                             | 2008   |
| Revenue                   | 6,699                            | 5,800  |
| Gross margin              | 856                              | 1,017  |
| Loss from operations      | (582 )                           | (586 ) |

Loss from the manufacturing segment decreased by \$4 to \$582 for the six months ended December 31, 2009 from \$586 in the same period last fiscal year primarily due to an increase in revenue as a result of the increased demand of our products from one of our major customers in Singapore. Operating expenses for the manufacturing segment were \$1,438 and \$1,603 for the six months ended December 31, 2009 and 2008, respectively.

## Testing Segment

The revenue, gross margin and loss from operations for the testing segment for the six months ended December 31, 2009 and 2008, were as follows:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |        |
|---------------------------|----------------------------------|--------|
|                           | 2009                             | 2008   |
| Revenue                   | 5,263                            | 5,826  |
| Gross margin              | 1,448                            | 1,554  |
| Loss from operations      | (191 )                           | (811 ) |

Table of Contents

Loss from operations in the testing segment for the six months ending December 31, 2009 was \$191 a decrease of \$620, compared to a loss of \$811 in the same period of fiscal 2009. The decrease in operating loss was attributable to a decrease in operating expense of \$726, which was offset by an increase in gross margin of r\$106. Operating expenses were \$1,639 and \$2,365 for the six months ended December 31, 2009 and 2008, respectively. The decrease in operating expenses was mainly due to a decrease in payroll related expenses as a result of a decrease in employee headcount in our Singapore operations. ,

## Distribution Segment

The revenue, gross margin and income from operations for the distribution segment for the six months ended December 31, 2009 and 2008, were as follows:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |      |
|---------------------------|----------------------------------|------|
|                           | 2009                             | 2008 |
| Revenue                   | 302                              | 166  |
| Gross margin              | 74                               | 52   |
| Income from operations    | 36                               | 37   |

Income from operations in the distribution segment decreased by \$1 to \$36 for the six months ended December 31, 2009, from \$37 for the six months ended December 31, 2008. The decrease in operating income was mainly due to an increase in operating expenses of \$25, which was offset by an increase in gross profit of \$24.. Operating expenses were \$38 and \$15 for the six months ended December 31, 2009 and 2008, respectively. The increase in operating expenses in fiscal 2010 was mainly due to a gain of \$24 in the selling of property, plant and equipment in the six months ended December 31, 2008. We did not have such a gain in the same period of 2009.

## Real Estate Segment

The revenue, gross margin and income from operations for the real estate segment for the six months ended December 31, 2009 and 2008 were as follows:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |      |
|---------------------------|----------------------------------|------|
|                           | 2009                             | 2008 |
| Revenue                   | 328                              | 257  |
| Gross margin              | 257                              | 238  |
| Income from operations    | 207                              | 238  |

Income from operations in the real estate segment was \$207 and \$238for the six months ended December 31, 2009 and 2008, respectively. The operating expenses were \$50 for the six months ended December 31, 2009. The operating expenses for the six months ended December 31, 2009 mainly consisted of depreciation expenses and payroll related expenses.

Table of Contents

## Fabrication Services

The revenue, gross margin and loss from operations for the fabrication services segment for the six months ended December 31, 2009 and 2008 were as follows:

| (In Thousands, unaudited) | Six Months Ended<br>December 31, |      |
|---------------------------|----------------------------------|------|
|                           | 2009                             | 2008 |
| Revenue                   | 704                              | --   |
| Gross margin              | (489 )                           | --   |
| Loss from operations      | (825 )                           | --   |

Loss from operations in the fabrication services segment was \$825. Operating expenses were \$335 for the six months ended December 31, 2009. This segment started operation July 1, 2009. As it is still in the development stage, segment's revenues are not sufficient to cover fixed and other costs Management believes that our gross margin in the fabrication services segment will be improved in the future if we are able to increase our revenue and increase the utilization of our facilities.

## Corporate

The income from operations for corporate for for the six months ended December 31, 2009 and 2008 were as follows:

| (In Thousand, unaudited)      | Six Months Ended<br>December 31, |      |
|-------------------------------|----------------------------------|------|
|                               | 2008                             | 2009 |
| Income (loss) from operations | 227                              | 52   |

Corporate operating income increased by \$175 to \$227 for the six months ended December 31, 2009, from \$52 in the same period last fiscal year. The increase in operating income was mainly due to a decrease of \$188 in stock option expenses. In fiscal 2009, we granted 50,000 shares of stock options to certain officers and employees pursuant to the 2007 Employee Plan and 60,000 shares of stock options to our directors pursuant to the 2007 Directors Plan, but we granted no options in fiscal 2010 under either plan. The decrease in stock option compensation was partially offset by a decrease in corporate management fees. In July 2009, we decreased the corporate management fee, which is based on the percentage of revenue imposed on all the subsidiaries, due to an increase in the revenue from our subsidiaries. The revenue percentage charged on subsidiaries is a reimbursement to the corporate office to cover its operating expenses. Management reviews this percentage periodically to make sure the amount charged is sufficient to cover its corporate expenses.

## Financial Condition

During the six months ended December 31, 2009, total assets increased \$4,107 from \$27,947 at June 30, 2009 to \$32,054 at December 30, 2009. The increase in total assets was primarily due to an increase in plant, property and equipment due to purchase factory and office building in Malaysia operations and capital expenditure in Indonesia operations.

At the end of the second quarter of fiscal 2010, total cash and short-term deposits were \$6,070, reflecting a decrease of \$1,961 from fiscal year-end 2009. The decrease in cash and short-term deposits was primarily due to capital expenditures of \$4,932 mainly in the Indonesian operations in the second quarter of fiscal 2010.



## Table of Contents

At December 31, 2009, the accounts receivable balance increased by \$1,938 from the balance at June 30, 2009 due primarily to an increase in sales in the six months ending December 31, 2009. The rate of turnover of accounts receivables was 69 days at the end of the second quarter of fiscal 2010 compared with 78 days at fiscal year-end 2009, which primarily was due to higher collections from debtors in this quarter mainly from Malaysia operations.

Inventory at December 31, 2009 was \$1,485, an increase of \$301, or 25.4%, compared to \$1,184 at June 30, 2009. The increase in inventory was mainly from the work in progress inventory items. Inventory purchases and stocking was required to meet the customers' specific requirements as our manufacturing segment sales increased in the second quarter of fiscal 2010. The turnover of inventory remained at 40 days at the end of the second quarter of fiscal 2010, which is the same as of the fiscal year-end 2009.

Prepaid expenses and other current assets at December 31, 2009 were \$195, an increase of \$28 from the balance at June 30, 2009, primarily due to increased prepayments to suppliers in the Singapore distribution operations in the ordinary course of business.

Investments in China decreased by \$308 from \$2,935 at June 30, 2008 to \$2,627 at December 31, 2009. This is due to the repayment of the investment amount of RMB 1,988 approximately \$291 based on the exchange rate as of December 31, 2009 published by the Monetary Authority of Singapore.

Property, plant and equipment increased by \$4,437, from \$6,607 at June 30, 2009 to \$11,044 at December 31, 2009. Capital expenditures were \$4,437 for the six months ended December 31, 2009, compared with \$1,043 for the first six months of fiscal 2009. The increase in capital expenditure was mainly due to the purchase of factory and office building in Petaling Jaya, Kuala Lumpur, Malaysia for RM 9,625 or approximately \$2,810, based on the exchange rate as of December 31, 2009 published by Monetary Authority of Singapore, and machinery equipments amounting to RM5,147 or approximately \$1,483 (based on the exchange rate as of December 31, 2009 published by Monetary Authority of Singapore, for the expansion to meet one of the major customers requirements. Prior to this purchase, this property was under lease rental by the Malaysia operations. As this factory building is in close proximity to the facility of one of our major customers, the Company believes that this purchase will enable us to secure testing orders from that customer. The remaining amounts were spent by PT SHI Indonesia, the newly acquired subsidiary, in first quarter of fiscal 2010 in leasehold improvements and other fixed assets.

Depreciation was approximately \$1,072 for the six months ended December 31, 2009, compared with \$1103 for the six months ended December 31, 2008. The decrease in depreciation expenses was mainly due to the fact that certain assets had been fully depreciated, resulting in a decreased in depreciation charges to income statement.

Other assets at December 31, 2009 decreased by \$1,117 from \$1,326 as at June 30, 2009 to \$209 as at December 31, 2009. The decrease in other assets was primarily due to the purchase of fixed assets and hence the down payment for fixed assets in the Malaysia operations decreased as at December 31, 2009.

## Liquidity Comparison

Net cash used in operating activities increased by \$1,249 to \$777 for the six months ended December 31, 2009 from an inflow of \$472 in the same period of last fiscal year. The increase in net cash used by operating activities was primarily due to the cash outflow of \$2,229 from change in accounts receivable and inventory in the six months ended December 31, 2009, compared with cash inflow of \$2,459 for the same period of prior year, but this was offset by cash flow positions from change in accounts payable of \$1,115 during the six months ended December 31, 2009, compared with cash outflow of \$3,061 for the same period of last year.





## Table of Contents

Net cash used in investing activities increased by \$3,768 for the six months ended December 31, 2009 from an inflow of \$896 for the same period of fiscal 2009 primarily due to an increase in capital expenditure. Capital expenditure in cash increased by \$2,840 to \$3,894 in the period six months ended December 31, 2009, compared with \$1,034 for the same period of the prior fiscal year. The increase in capital expenditure was primarily due to the purchase of factory and office building in our Malaysia operation, as previously discussed.

Net cash provided by financing activities for the six months ended December 31, 2009 was \$2,053, representing an increase of \$3,017 compared to net cash outflow of \$964 during the six month ended December 31 2008. The increase was due mainly to an increase of \$3,112 from long-term bank loans compared with the same period of last fiscal year. On August 24, 2008, TTM obtained a long-term loan of RM 9,625, or approximately \$2,733, offered by a financial institution in Malaysia for the purpose of purchasing a building for its testing operations in Petaling Jaya, Kuala Lumpur, Malaysia.

The non-cash capital expenditure related to down-payment of fixed assets amounting to \$1,272 paid in prior quarters is capitalized in the the six months ended Dec 31, 2009 as the assets have been acquired.

We believe we have the necessary financial resources to meet our projected cash requirements for at least the next twelve months.

### Corporate Guarantee Arrangement

The Company provides a corporate guarantee of approximately \$1,782 to one of its subsidiaries in Southeast Asia to secure line-of-credit and term loans from a bank to finance the operations of such subsidiary. With the strong financial position of the subsidiary company, the Company believes this corporate guarantee arrangement will have no material impact on its liquidity or capital resources.

### Critical Accounting Estimates & Policies

Except as set forth below, there have been no significant changes in the critical accounting polices, except the accounting policy on revenue recognition, disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the most recent Annual Report on Form 10-K.

Revenue Recognition — We adopted the following revenue recognition policy for our fabrication service segment which was set up in the first quarter of fiscal 2010.

In the fabrication services segment, revenue is recognized from long-term, fixed-price contracts using the percentage-of-completion method of accounting, (1) input method - measured by multiplying the estimated total contract value by the ratio of actual contract costs incurred to date to the estimated total contract costs (2) output method – where the percentage of completion can be established directly based on the output. The Company makes significant estimates involving its usage of percentage-of-completion accounting to recognize contract revenues. The Company periodically reviews contracts in process for estimates-to-completion, and revises estimated gross profit accordingly. While the Company believes its estimated gross profit on contracts in process is reasonable, unforeseen events and changes in circumstances can take place in a subsequent accounting period that may cause the Company to revise its estimated gross profit on one or more of its contracts in process. Accordingly, the ultimate gross profit realized upon completion of such contracts can vary significantly from estimated amounts between accounting periods.

We prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions

that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES

An evaluation was carried out by the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2009, the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective at a reasonable level.

Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. There is no assurance that our disclosure controls or our internal controls over financial reporting can prevent all errors. An internal control system, no matter how well designed and operated, has inherent limitations, including the possibility of human error. Because of the inherent limitations in a cost-effective control system, misstatements due to error may occur and not be detected. We monitor our disclosure controls and internal controls and make modifications as necessary. Our intent in this regard is that our disclosure controls and our internal controls will improve as systems change and conditions warrant.

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

Table of ContentsTRIO-TECH INTERNATIONAL  
PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Not applicable.

## Item 1A. Risk Factors

Not applicable.

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

Malaysian and Singapore regulations prohibit the payment of dividends if the Company does not have sufficient retained earnings and tax credit. In addition, the payment of dividends can only be made after making deductions for income tax pursuant to the regulations. Furthermore, the cash movements from the Company's 55% owned Malaysian subsidiary to overseas are restricted and must be authorized by the Central Bank of Malaysia. California law also prohibits the payment of dividends if the Company does not have sufficient retained earnings or cannot meet certain asset to liability ratios.

## Item 3. Defaults Upon Senior Securities

Not applicable.

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

An annual meeting of shareholders was held on December 7, 2009. The only matter voted on at the annual meeting was the election of directors. Proxies for the annual meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees for Directors as listed in the Proxy Statement. All of such nominees were elected. The number of votes for each of such nominees was as follows:

| Directors         | Votes     |          |         | Total     |
|-------------------|-----------|----------|---------|-----------|
|                   | Votes For | Withheld | No Vote |           |
| Jason Adelman     | 2,541,251 | 173,692  | 512,487 | 3,227,430 |
| Richard Horowitz  | 2,549,072 | 165,871  | 512,487 | 3,227,430 |
| A. Charles Wilson | 2,336,526 | 378,417  | 512,487 | 3,227,430 |
| S. W. Yong        | 2,249,418 | 365,525  | 512,487 | 3,227,430 |

## Item 5. Other Information

Not applicable.

Table of Contents

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of Principal Executive Officer of Registrant

31.2 Rule 13a-14(a) Certification of Principal Financial Officer of Registrant

32 Section 1350 Certification.

-47-

---

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRIO-TECH INTERNATIONAL

By: /s/ Victor H.M. Ting  
VICTOR H.M. TING  
Vice President and  
Chief Financial Officer  
(Principal Financial Officer)  
Dated: February 16, 2010