

TRIO TECH INTERNATIONAL
Form 10-K
October 01, 2010

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

FORM 10-K

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

For the fiscal year ended June 30, 2010

OR

E 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: 818-787-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, no par value

Name of each exchange on which registered
The NYSE Amex

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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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. R Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in a definitive proxy statement or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of Registrant, based upon the closing price of \$3.23 for shares of the registrant's Common Stock on December 31, 2009, the last business day of the registrant's most recently completed second fiscal quarter as reported by the NYSE Amex, was approximately \$5.5 million. In calculating such aggregate market value, shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock (including shares with respect to which a holder has the right to acquire beneficial ownership within 60 days) were excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock outstanding as of September 24, 2010 was 3,229,430.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from Registrant's Proxy Statement for its 2010 Annual Meeting of Shareholders to be filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

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We have 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) Ltd. ("TTCQ"), in Chongqing, China to invest in 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. We have reported this business as a fifth segment, as the nature of these business activities is different from our other business segments.

Geographically, we operate in the U.S., Singapore, Malaysia, Thailand, China and Indonesia. Our major operation activities are conducted in our Singapore and Malaysia operations. We operate five testing facilities; one in the United States and four in Southeast Asia. We operate two manufacturing facilities: one is located in the United States and the other one is in Southeast Asia. Our distribution segment, the real estate segment and fabrication services operate primarily in Southeast Asia. Our major customers are mainly concentrated in Southeast Asia and they are either semiconductor chip manufacturers or testing facilities that purchase testing equipment.

All dollar amounts in this report are based on the exchange rates as of June 30, 2010, published by the Monetary Authority of Singapore. The report contains certain forward looking statements which are based on current expectations and assumptions that are subject to risk and uncertainties. Actual results could differ materially because of various factors, including without limitation changes in the exchange rate between various currencies and United States Dollars.

Company History (5 years)

- | | |
|------|--|
| 2005 | Trio-Tech Singapore, Trio-Tech Malaysia and Trio-Tech Bangkok achieved ISO 9001:2000 certification.
Trio-Tech Singapore, Trio-Tech Malaysia and Trio-Tech Bangkok achieved ISO/TS16949, 2002 certification.
Trio-Tech Ireland closed its facility in Ireland. |
| 2006 | Trio-Tech Singapore acquired a burn-in testing company in Shanghai and changed its name to Trio-Tech (Shanghai) Co. Ltd. |
| 2007 | Trio-Tech Singapore achieved ISO 14001, 2004 certification.
Universal (Far East) Pte. Ltd. achieved ISO/IEC 17025, 2005 accreditation under SAC-SINGLAS for the field of Testing.
Trio-Tech (Suzhou) started its testing service.
Trio-Tech Singapore established a subsidiary, Trio-Tech (ChongQing) Co. Ltd. in ChongQing, China. |
| 2008 | Trio-Tech (Suzhou) achieved ISO 9001:2000 certification.
Universal (Far East) Pte. Ltd. achieved ISO/IEC 17025:2005 accreditation under SAC-SINGLAS for the field of Calibration and Measurement.
Universal (Far East) Pte. Ltd. achieved ISO 9001:2000 certification.
Trio-Tech Singapore scaled down its facility in Singapore due to the loss of one of its major customers. |

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2009	Trio-Tech Singapore, Trio-Tech Malaysia, Trio-Tech (Suzhou) and Trio-Tech (Bangkok) were re-certified to ISO 9001-2008 standards. Trio-Tech Singapore was recertified to ISP 14001:2004 standard. Trio-Tech Singapore established a subsidiary, SHI International Pte. Ltd. in Singapore.
2010	SHI International Pte. Ltd. acquired 100% interest in PT SHI Indonesia, located in Indonesia. Trio-Tech Singapore achieved biz SAFE Level 3 workplace safety and health standard. Trio-Tech Singapore established a subsidiary, Trio-Tech (Tianjin) Co., Ltd. in China. Trio-Tech (Tianjin) Co., Ltd. achieved ISO 9001-2008 certification.

Recent Developments

In the fourth quarter of 2010 Trio-Tech International Pte. Ltd. registered a new 100% wholly owned subsidiary, Trio-Tech (Tianjin) Co., Ltd. located in the Xiqing Economic Development Area International Industrial Park in Tianjin city, Peoples' Republic of China. This newly set-up subsidiary will provide testing services for one of our major customers.

In the fourth quarter of fiscal 2010, our Malaysia operation commenced its expansion plans to meet the increasing demand from one of our major customer. The expansion was comprised of the purchase of additional plant and equipment and the necessary changes in its infrastructure to accommodate the new plant and equipment.

Industry

The semiconductor industry has experienced periods of rapid growth, but has also experienced downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. As a result of the credit market crisis in 2008 and other macroeconomic challenges affecting the global economy, the global semiconductor industry suffered a sharp downturn in the first half of 2009. In the second half of 2009, the industry began to recover, driven by customers who had reduced their inventory levels in the face of the economic downturn and government sponsored demand generation programs.

According to the Semiconductor Industry Association (SIA) report on August 30, 2010, global sales of semiconductors grew to \$25.2 billion in July 2010, an increase of 1.2% from June 2010 when sales were \$24.9 billion, and an increase of 37.0% from July 2009 when sales were \$18.4 billion. Year to date sales total \$169.2 billion, an increase of 46.7% from the \$115.3 billion reported for the first seven months of 2009. All monthly sales numbers represent a three-month moving average. The SIA anticipates that the global sales of semiconductors for 2010 will be in line with its mid-year forecast of 28.4%.

Overall Business Strategies

Our revenue has increased significantly from fiscal year 2009 to 2010, from approximately \$19,995 for fiscal year 2009 to \$36,928 for fiscal year 2010, representing an increase rate of approximately 84.7%. Our core business, testing, manufacturing and distribution, accounted for 95.7% and 97.9% of our revenue for fiscal year 2010 and fiscal year 2009, respectively. To reduce our risk associated with single business activity and concentration of customers, we intend to continue growing our core businesses while diversifying our business scope.

We have established a set of key strategic goals for our business. Included among these are specific targets for growth in net sales and operating profit as a percentage of net sales. Our strategic plan assumes growth targets will be

achieved by pursuing and winning new business in the following areas:

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- Primary markets – Capturing additional market share within our primary markets by offering superior products and services to address the needs of our major customers.
- Focus on growing markets – Expanding our geographic reach in areas of the world with significant growth potential.
- New markets –Developing new products and technologies that serve wholly new markets.
- Pursue complementary strategic relationships- Complementary acquisitions or similar arrangements can expand our markets and strengthen our competitive position. As part of our growth strategy, the Company continues to selectively assess opportunities to develop strategic relationships, including acquisitions, investments and joint development projects with key partners and other businesses.

Products / Services

Testing Services

We use our own proprietary equipment for certain burn-in, centrifugal and leak tests, and commercially available equipment for various other environmental tests. We conduct the majority of our testing operations in Southeast Asia with facilities in Singapore, Malaysia, Thailand and China. Most of the facilities in Southeast Asia are either ISO9001 or ISO14001 certified. In 2009, Trio-Tech International Pte. Ltd. Singapore, Trio-Tech Malaysia, Trio-Tech (Suzhou) and Trio-Tech (Bangkok) were re-certified and in 2010, Trio-Tech (Tianjin) was certified to ISO 9001-2008 standards.

Testing services are rendered to manufacturers and purchasers of semiconductors and other entities who either lack testing capabilities or whose in-house screening facilities are insufficient for testing devices in order for them to make sure that these products meet military or certain commercial specifications. Customers outsource their test services either to accommodate fluctuations in output or to benefit from economies that can be offered by third party service providers.

Our laboratories perform a variety of tests, including stabilization bake, thermal shock, temperature cycling, mechanical shock, constant acceleration, gross and fine leak tests, electrical testing, microprocessor equipment contract cleaning services, static and dynamic burn-in tests, reliability lab services and vibration testing. Our laboratories also perform qualification testing, consisting of intense tests conducted on small samples of output from manufacturers who require qualification of their processes and devices.

Manufactured Products

Front-End Products

Artic Temperature Controlled Wafer Chucks

Artic Temperature Controlled Chucks are used for test, characterization and failure analysis of semiconductor wafers and such other components at accurately controlled cold and hot temperatures. These systems provide excellent performance to meet the most demanding customer applications. Several unique mechanical design features, for which patents have been granted, provide excellent mechanical stability under high probing forces and across temperature ranges.

Wet Process Stations

Wet Process Stations are used for cleaning, rinsing and drying semiconductor wafers, flat panel displays magnetic disks, and other microelectronic substrates. After the etching or deposition of integrated circuits, wafers are typically sent through a series of 100 to 300 additional processing steps. At many of these processing steps, the wafer is washed and dried using Wet Process Stations.

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Back-End Products

Autoclaves and HAST (Highly Accelerated Stress Test) Equipment

The Company manufactures a range of autoclaves and HAST systems and specialized test fixtures. Autoclaves provide pressurized, saturated vapor (100% relative humidity) test environments for fast and easy monitoring of integrated circuit manufacturing processes. HAST provides a fast and cost-effective alternative to conventional non-pressurized temperature and humidity testing.

Burn-in Equipment and Boards

The Company manufactures burn-in systems, burn-in boards and burn-in board test systems. Burn-in equipment is used to subject semiconductor devices to elevated temperatures while testing them electrically to identify early product failures and to assure long-term reliability. Burn-in boards are used to mount devices during high temperature environmental stressing tests.

While providing integrated burn-in solutions, the Company presents total burn-in automation solutions to improve products' yield, reduce processing downtime and improve efficiency. In addition, the Company develops cooling solution, which is used to cool or maintain the temperature of high power heat dissipation semiconductor devices.

Component Centrifuges and Leak Detection Equipment

Component centrifuges and leak detection equipment are used to test the mechanical integrity of ceramic and other hermetically sealed semiconductor devices and electronic parts for high reliability and aerospace applications. Leak detection equipment is designed to detect leaks in hermetic packaging. The bubble tester is used for gross leak detection. A visual bubble trail will indicate when a device is defective.

Distribution Activities

Our Singapore subsidiary continues to develop its international distribution activities in Southeast Asia. In addition to marketing its own proprietary products, the Singapore subsidiary distributes products that complement other manufacturers based in the United States, Europe, Japan and other countries. The products sold include environmental chambers, handlers, interface systems, vibration systems, and shaker systems, solder ability testers and other manufactured products.

Real Estate Segment

Our real estate segment generates investment revenue and rental revenue from real estate we purchased in Chongqing, China.

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 pursuant to a 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 of acquiring this business was to diversify its business, reduce the risk associated with sole industry focus, and enhance the Company's future growth opportunities.

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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. Indonesia is expected to have 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 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.

Product Research and Development

We focus our research and development activities on improving and enhancing both product design and process technology. We conduct product and system research and development activities for our products in the United States. As there was very little operating activity in our U.S. operation, our research and development expenses were only \$39 for fiscal year 2010 and fiscal year 2009, respectively.

Marketing, Distribution and Services

We market our products and services worldwide, directly and through independent sales representatives and our own marketing sales team. We have approximately seven independent sales representatives operating in the United States and another eighteen in various foreign countries. Of the twenty-five sales representatives, seven are representing the distribution segment and eighteen are representing the testing segment and the manufacturing segment for various products and service produced and provided from our facilities in different locations.

Independent testing laboratories, users, assemblers and manufacturers of semiconductor devices, including many large, well-known corporations, purchase our products and services. Our ability to maintain close, satisfactory relationships with our customers is essential for our stability and growth. However, because of a high concentration of customers, the loss, reduction, or delay of orders placed by our significant customers, or delays in collecting accounts receivable from our significant customers, could adversely affect our results of operations and financial position.

In fiscal 2010 and 2009, combined sales of equipment and services to our three largest customers accounted for approximately 72.0% and 60.9%, respectively, of our total net revenue. During fiscal 2010, the Company had sales of \$23,349 (63.2%) to Customer A. During fiscal 2009, we had sales of \$8,664 (51.2%) to Customer A.. Although the top customer mentioned above is a U.S. company, the revenue generated from them was from their facilities located outside of the U.S. The majority of our sales and services in fiscal years 2010 and 2009 were to customers outside of the United States. For information relating to profit and loss and total assets for each of our segments, see Note 21 - Business segments of our consolidated financial statements included in this Form 10-K.

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Backlog

The following table sets forth the Company's backlog at the dates indicated (amounts in thousands):

	June 30, 2010	June 30, 2009
Manufacturing backlog	\$7,181	\$1,194
Testing service backlog	618	345
Distribution backlog	199	75
Real estate backlog	--	--
Fabrication services backlog	9	--
	\$8,007	\$1,614

Based upon our past experience, we do not anticipate any significant cancellations or re-negotiation of sales. The purchase orders for the manufacturing, testing and distribution businesses generally require delivery within 12 months from the date of the purchase order and certain costs are incurred before delivery. In the event of a cancellation of a confirmed purchase order, we require our customers to reimburse us for all costs incurred. We do not anticipate any difficulties in meeting delivery schedules.

Materials and Supplies

Our products are designed by our engineers and are assembled and tested at our facilities in California, China and Singapore. We purchase all parts and certain components from outside vendors for assembly purposes. We have no written contracts with any of our key suppliers. As these parts and components are available from a variety of sources, we believe that the loss of any one of our suppliers would not have a material adverse effect on our results of operations taken as a whole.

Competition

Our ability to compete depends on our ability to develop, introduce and sell new products or enhanced versions of existing products on a timely basis and at competitive prices, while reducing our costs.

There are numerous testing laboratories in the areas where we operate that perform a range of testing services similar to those offered. However, due to recent severe competition in the Southeast Asia testing and burn-in services industry there has been a reduction in the total number of competitors. The existence of competing laboratories and the purchase of testing equipment by semiconductor manufacturers and users are potential threats to our future testing services revenue and earnings. Although these laboratories and new competitors may challenge us at any time, we believe that other factors, including reputation, long service history and strong customer relationships, are instrumental in determining our position in the market.

The distribution segment sells a wide range of equipment to be used for testing products. As the semiconductor equipment industry is highly competitive, we offer a one-stop service alternative to customers by complementing our products with design consultancy and other value-added services.

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We believe that the principal competitive factors in the manufacturing industry include product performance, reliability, service and technical support, product improvements, price, established relationships with customers and product familiarity. We make every effort to compete favorably with respect to each of these factors. Although we have competitors for our various products, we believe that our products compete favorably with respect to each of the above factors. We have been in business for more than 52 years and have operation facilities mostly located in Southeast Asia. We believe that those factors combined have helped us to establish and consolidate long-term relationships with customers and will allow us to continue doing business with our existing customers upon their relocation to other regions where we have a local presence or are able to reach.

Patents

The manufacturing segment holds a United States patent granted in 1994 on certain aspects of its Artic temperature test systems. In 2001, we registered a new United States patent (for 21 years) for several aspects of a new range of Artic Temperature Controlled Chucks. As these patents are not significant for our manufacturing segment due to the change in our products portfolio, the capitalized cost of the patents was written off in fiscal 2002 because of the impairment assessed by our management. In fiscal 2010 and 2009, we did not register any patents within the U.S.

It is typical in the semiconductor industry to receive notices from time to time alleging infringement of patents or other intellectual property rights of others. We do not believe that we infringe on the intellectual property rights of any others. However, should any claims be brought against us, the cost of litigating such claims and any damages could materially and adversely affect our business, financial condition, and results of operations.

Employees