TRIO TECH INTERNATIONAL
Form 10-Q
November 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2008

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 principle 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 R No £

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer £	Accelerated Filer £
Non-Accelerated Filer £	Smaller Reporting Company R

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

Number of shares of common stock outstanding as of November 1, 2008 is 3,227,430

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INDEX TO CONSOLIDATED FINANCIAL INFORMATION, OTHER INFORMATION AND SIGNATURE

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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; other economic, financial and regulatory factors beyond the Company's control; and the sharp correction in the housing market and the significant fluctuations of oil prices which occurred in 2007 and 2008. 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," "estima "potential," "believes," "can impact," "continue," or the negative thereof or other comparable terminology.

We undertake no obligation to update forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

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

ASSETS	September 30, 2008 (Unaudited)	June 30, 2008
CURRENT ASSETS:		
Cash	$ 4,664	$ 6,600
Short-term deposits	8,362	7,746
Trade accounts receivable, less allowance for doubtful accounts of $47 and $51	4,833	5,702
Other receivables	697	796
Inventories, less provision for obsolete inventory of $685 and $880	1,879	2,449
Prepaid expenses and other current assets	195	138
Total current assets	20,630	23,431
INVESTMENT IN CHINA (Note 9)	2,291	2,267
PROPERTY, PLANT AND EQUIPMENT, Net	7,938	8,136
OTHER INTANGIBLE ASSETS, Net	80	112
OTHER ASSETS	735	813
TOTAL ASSETS	$ 31,674	$ 34,759
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,261	$ 2,586
Accrued expenses	2,796	3,036
Income taxes payable	450	397
Current portion of bank loans payable	2,516	1,403
Current portion of capital leases	75	106
Total current liabilities	7,098	7,528
BANK LOANS PAYABLE, net of current portion	-	1,620
CAPITAL LEASES, net of current portion	125	143
DEFERRED TAX LIABILITIES	550	510
OTHER LIABILITIES	9	9
TOTAL LIABILITIES	$ 7,782	$ 9,810
MINORITY INTEREST	2,899	2,808

SHAREHOLDERS' EQUITY:				
Common stock; no par value, 15,000,000 shares authorized; 3,227,430 and 3,226,430 shares issued and outstanding as at September 30, 2008, and at June 30, 2008, respectively		10,365		10,362
Paid-in capital		1,166		928
Accumulated retained earnings		8,106		8,825
Accumulated other comprehensive loss-translation adjustments		1,356		2,026
Total shareholders' equity		20,993		22,141
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	31,674	$	34,759

See notes to condensed consolidated financial statements.

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME, UNAUDITED (IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	Three Months Ended	
	September 30, 2008 (Unaudited)	September 30,, 2007 (Unaudited)
Revenues		
Products	$ 3,132	$ 6,507
Services	3,098	5,543
	6,230	12,050
Costs of Sales		
Cost of products sold	2,667	5,529
Cost of services rendered	2,261	3,479
	4,928	9,008
Gross Margin	1,302	3,042
Operating Expenses / (Gains) :		
General and administrative	2,015	1,645
Selling	123	124
Research and development	10	19
Gain on disposal of property, plant and equipment	(159)	-
Total operating expenses	1,989	1,788
(Loss) Income from Operations	(687)	1,254
Other Income (Expenses)		
Interest expense	(58)	(85)
Other income (expenses)	215	(50)
Total other income (expenses)	157	(135)
(Loss) Income Before Income Taxes	(530)	1,119
Income Tax Provision	98	172
(Loss) Income Before Minority Interest	(628)	947
Minority interest	91	196
Net (Loss)Income Attributed to Common Shares	$ (719)	$ 751
(LOSS) EARNINGS PER SHARE:		
Basic (loss) earnings per share	$ (0.22)	$ 0.23
Diluted (loss) earnings per share	$ (0.22)	$ 0.23
Weighted Average Shares Outstanding		

Basic		3,227		3,226
Diluted		3,227		3,237
Comprehensive Income (Loss):				
Net (loss) income	$	(719)	$	751
Foreign currency translation adjustment		(670)		216
Comprehensive (Loss) Income	$	(1,389)	$	967

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, UNAUDITED (IN THOUSANDS)

	Three Months Ended	
	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)
Cash Flow from Operating Activities		
Net income (loss)	$ (719)	$ 751
Adjustments to reconcile net income to net cash flow provided by (used in) operating activities		
Depreciation and amortization	546	805
Bad debt expense, net	8	1
Inventory provision	195	15
Interest income on short-term deposits	(51)	(53)
Gain on sale of equipment	(159)	-
Stock compensation	238	-
Deferred tax provision	40	8
Minority interest	91	200
Changes in operating assets and liabilities, net of acquisition effects		
Accounts receivables	861	(2,584)
Other receivables	99	(255)
Other assets	78	18
Inventories	375	(236)
Prepaid expenses and other current assets	(57)	(84)
Accounts payable and accrued liabilities	(1,565)	843
Income tax payable	53	189
Net cash provided by (used in) operating activities	33	(382)
Cash Flow from Investing Activities		
Proceeds from short-term deposit matured	464	10,369
Investments in short-term deposits	(1,034)	(11,432)
Additions to property, plant and equipment	(659)	(545)
Proceeds from sale of equipment	161	-
Investment in Chongqing, China	-	(1,331)
Net cash used in investing activities	(1,068)	(2,939)
Cash Flow from Financing Activities		
Net borrowings on lines of credits	-	209
Repayment of bank loans and capital leases	(551)	(417)
Proceeds from long-term bank loans and capital leases	-	3,610
Proceeds from exercising stock options	3	-
Net cash (used in) provided by financing activities	(548)	3,402
Effect of Changes in Exchange Rate	(353)	123

NET (DECREASE) INCREASE IN CASH		(1,936)		204
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		6,600		7,135
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	4,664	$	7,339
Supplementary Information of Cash Flows				
Cash paid during the period for:				
Interest	$	60	$	34
Income taxes	$	-	$	3
Non-Cash Transactions				
Assets held for sale	$	-		(210)
Carrying value of property reclassified from property, plant and equipment	$	-		210

See notes to condensed consolidated financial statements.

TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED, 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 three business segments: Testing Services, Manufacturing and Distribution. TTI has subsidiaries in the U.S., Singapore, Malaysia, Thailand, and China 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	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 – 100% 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

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 consolidated financial statements are presented in U.S. dollars. The accompanying 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 three months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2009. 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, 2008.

Certain prior year balances may have been reclassified to conform to the current presentation.

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2. NEW ACCOUNTING PRONOUNCEMENTS

In April 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. SFAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP SFAS 142-3"). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), "Business Combinations" and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The adoption of this statement is not expected to have a material impact on our consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect the implementation of this statement to have an impact on its results of operations or financial position.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect the implementation of this statement to have a material impact on its results of operations or financial position.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007), Business Combinations, or SFAS No. 141R. SFAS No. 141R will change the accounting for business combinations in a number of areas including the treatment of contingent considerations, pre-acquisition contingencies, transaction costs, in-process research and development, and restructuring costs. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company believes the adoption of SFAS 141R will have an impact on the accounting for future acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51, or SFAS No. 160. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the impact adoption may have on its financial condition or results of operations.

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In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159. SFAS No. 159 permits, but does not require, entities to choose to measure eligible items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that a company also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. The Company adopted SFAS No. 159 on July 1, 2008 and it has no impact on its financial condition or results of operations.

3. INVENTORIES

Inventories consisted of the following:

	Sept. 30, 2008 (Unaudited)	June 30, 2008
Raw materials	$ 1,122	$ 1,297
Work in progress	1,257	1,797
Finished goods	185	235
Less: provision for obsolete inventory	(685)	(880)
	$ 1,879	$ 2,449

4. STOCK OPTIONS

As of September 30, 2008, the Company had 2,750 shares of stock options outstanding under the 1998 Employee Option Plan, which 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.

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123R, “Share-Based Payment” (SFAS No 123R), which requires the measurement and recognition of compensation expense for all stock-based payment awards made to the Company’s employees and directors including stock options and employee stock purchases. Stock-based compensation expense for stock options and employee stock purchases granted subsequent to July 1, 2005 was based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. During the process of estimating the fair value of the stock options granted and recognizing share-based compensation, the following assumptions were adopted.

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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:

	Three Months Ended September 30, 2008	Year Ended June 30, 2008
Expected volatility	107.18%	110.91-117.70%
Risk-free interest rate	2.48%	2.90%
Expected life (years)	2.00	2.00

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 life of stock options is based on the historical experience of similar stock options granted and observed. 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. They shall 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).

During the first quarter of fiscal 2009, 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.

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The Company recognized stock-based compensation expense of approximately $75 in the first quarter of fiscal 2009 under the 2007 Employee Plan. Unamortized stock-based compensation of $172 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 September 30, 2008, there were 23,000 shares of vested employees' stock options. The weighted-average exercise price was $7.03 and the weighted average remaining contractual term was 4.50 years. The total intrinsic value of vested employees' stock options during the three months ended September 30, 2008 was zero. A summary of option activities under the 2007 Employee Plan during the three months ended September 30, 2008 is presented as follows:

	Options	Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2008	44,000	$ 9.57	4.43	-
Granted	50,000	$ 4.81	4.78	-
Exercised	-	-		
Forfeited or expired	(2,000)	$ 7.19		
Outstanding at September 30, 2008	92,000	$ 7.03	4.50	-
Exercisable at September 30, 2008	23,000	$ 7.03	4.50	-

A summary of the status of the Company's non-vested employees' stock options during the three month period ended September 30, 2008 is presented below:

	Options	Weighted-Average Grant-Date Fair Value
Non-vested at July 1, 2008	33,000	$ 5.55
Granted	50,000	$ 2.71
Vested	(12,500)	$ 2.71
Forfeited	(1,500)	$ 4.13
Non-vested at September 30, 2008	69,000	$ 4.04

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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 first quarter of 2009, pursuant to the 2007 Directors Plan, 60,000 shares of stock options 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 60,000 shares of the Company's Common Stock issuable upon exercise of stock options granted 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 during the three month period ended September 30, 2008. The Company recognized stock-based compensation expense of $163 in the three months ended September 30, 2008 under the 2007 Directors Plan.

A summary of option activities under the 2007 Directors Plan during the three month period ended September 30, 2008 is presented as follow:

	Options		Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2008	60,000	$	9.57	4.43	
Granted	60,000	$	4.81	4.78	
Exercised	-		-		
Forfeited or expired	-		-		
Outstanding at September 30, 2008	120,000	$	7.19	4.48	-
Exercisable at September 30, 2008	120,000	$	7.19	4.48	-

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1998 Stock Option Plan

A summary of option activities under the 1998 Plan during the three month period ended September 30, 2008 is presented as follow:

	Options		Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2008	12,550	$	3.03		
Granted	-		-		
Exercised	(1,000)	$	2.66		
Forfeited or expired	(8,800)	$	2.66		
Outstanding at September 30, 2008	2,750	$	4.40	0.75	-
Exercisable at September 30, 2008	2,750	$	4.40	0.75	-

The intrinsic value of 2,750 options exercised was zero. Cash received from options exercised in the first quarter of 2009 was approximately $3. There were no unvested stock options under the 1998 Plan as of September 30, 2008.

5. EARNINGS PER SHARE

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share ("EPS"). 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 214,750 shares of Common Stock at exercise prices ranging from $4.40 to $9.57 per share as of September 30, 2008 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Options to purchase 13,050 shares of common stock at exercise prices ranging from $2.66 to $4.40 per share were outstanding as of September 30, 2007. No options were excluded in the determination of common shares equivalents, because the average market price of common shares was greater than the exercise price of the stock options. The resulting common shares equivalents were approximately 11,000 shares and are presented in the following table for earnings per share calculation purposes.

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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:

	Three Months Ended			
		Sep. 30, 2008 (Unaudited)		Sep. 30, 2007 (Unaudited)
Net (loss) income attributed to common shares	$	(719)	$	751
Basic (loss) earnings per share	$	(0.22)	$	0.23
Diluted (loss) earnings per share	$	(0.22)	$	0.23
Weighted average number of common shares outstanding - basic		3,227		3,226
Dilutive effect of stock options		-		11
Number of shares used to compute earnings per share - diluted		3,227		3,237

6. ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are customer obligations due under normal trade terms. We sell our products and services to manufacturers in the semiconductor industry. We perform continuing credit evaluations of our customers' financial conditions, and although we generally do not require collateral, letters of credit may be required from our customers in certain circumstances.

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. We include any accounts receivable balances that are determined to be uncollectible in our 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, we believe our allowance for doubtful accounts for the three months ended September 30, 2008 and the twelve months ended June 30, 2008 was adequate.

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

	Sept. 30, 2008 (Unaudited)	June 30, 2008