

TRIO TECH INTERNATIONAL

Form 10-Q

February 09, 2007

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**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, 2006**

**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)

**14731 Califa Street**

**Van Nuys, California**

(Address of principle executive offices)

**91411**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Number of shares of common stock outstanding as of February 05, 2007 is 3,225,242

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	December 31, 2006 (Unaudited)	June 30, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 5,021	\$ 2,551
Short-term deposits	5,528	7,839
Trade accounts receivable, less allowance for doubtful accounts of \$63 and \$225	11,823	8,518
Other receivables	207	306
Inventories, less provision for obsolete inventory of \$592 and \$448	4,637	2,447
Prepaid expenses and other current assets	220	170
Total current assets	27,436	21,831
PROPERTY, PLANT AND EQUIPMENT, Net	8,161	7,073
OTHER INTANGIBLE ASSETS, Net	260	311
OTHER ASSETS	315	169
<b>TOTAL ASSETS</b>	<b>\$ 36,172</b>	<b>\$ 29,384</b>
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Line of credit	\$ 1,947	\$ 116
Accounts payable	6,308	3,809
Dividend payable	323	
Accrued expenses	3,356	3,045
Income taxes payable	532	311
Current portion of notes payable	726	856
Current portion of capital leases	121	107
Current portion of deferred tax liabilities	241	319
Total current liabilities	13,554	8,563
NOTES PAYABLE, net of current portion	364	644
CAPITAL LEASES, net of current portion	200	230
DEFERRED TAX LIABILITIES	458	359
<b>TOTAL LIABILITIES</b>	<b>14,576</b>	<b>9,796</b>
MINORITY INTEREST	2,327	2,196

SHAREHOLDERS EQUITY:

Common stock; no par value, 15,000,000 shares authorized; 3,225,242 shares issued and outstanding as of December 31, 2006, and 3,219,407 shares issued and outstanding as of June 30, 2006, respectively	10,354	10,338
Paid-in capital	458	337
Accumulated retained earnings	8,382	7,150
Accumulated other comprehensive gain (loss) translation adjustments	75	(433)
Total shareholders equity	19,269	17,392
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 36,172	\$ 29,384

See notes to condensed consolidated financial statements.

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

	Six Months Ended		Three Months Ended	
	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
Revenue				
Products	\$ 14,772	\$ 5,870	\$ 8,794	\$ 3,710
Services	9,171	7,260	5,273	3,715
	23,943	13,130	14,067	7,425
Cost of Sales				
Cost of products sold	12,429	4,915	7,632	3,220
Cost of service rendered	5,658	4,525	3,069	2,339
	18,087	9,440	10,701	5,559
Gross Margin	5,856	3,690	3,366	1,866
Operating Expenses				
General and administrative	3,044	3,282	1,653	1,993
Selling	536	515	274	230
Research and development	34	33	17	16
Impairment Loss	172	15	172	
Total operating expenses	3,786	3,845	2,116	2,239
Income (Loss ) from Operations	2,070	(155)	1,250	(373)
Other Income (Expenses)				
Interest expense	(66)	(74)	(37)	(38)
Other income	110	112	73	82
Total Other income	44	38	36	44
Income (Loss) from Continuing Operations before Income Taxes	2,114	(117)	1,286	(329)
Income Tax Provision	478	184	453	112
	1,636	(301)	833	(441)

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Income (Loss) from Continuing Operations before Minority Interest				
Minority Interest	(81)	19	(34)	(5)
Income (Loss) from Continuing Operations Discontinued Operations (NOTE 10)	1,555	(282)	799	(446)
Income from discontinued operations		8,459		8,837
Net Income Attributed to Common Shares	\$ 1,555	\$ 8,177	\$ 799	\$ 8,391
<b>BASIC EARNINGS PER SHARE</b>				
Basic (loss) earnings per share from Continuing operations	\$ 0.48	\$ (0.09)	\$ 0.25	\$ (0.15)
Basic earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Basic earnings per share	\$ 0.48	\$ 2.71	\$ 0.25	\$ 2.76

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	Six Months Ended		Three Months Ended	
	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)	Dec. 31, 2006 (Unaudited)	Dec. 31, 2005 (Unaudited)
<b>DILUTED EARNINGS PER SHARE</b>				
Diluted earnings (loss) per share from Continuing operations	\$ 0.48	\$ (0.09)	\$ 0.25	\$ (0.15)
Diluted earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Diluted earnings per share	\$ 0.48	\$ 2.71	\$ 0.25	\$ 2.76
<b>Weighted Average Shares Outstanding</b>				
Basic	\$ 3,222	\$ 3,016	\$ 3,223	\$ 3,038
Diluted	3,234	3,016	3,235	3,038
<b>COMPREHENSIVE INCOME</b>				
Net income	\$ 1,555	\$ 8,177	\$ 799	\$ 8,391
Foreign currency translation adjustment	508	(746)	482	(766)
COMPREHENSIVE INCOME	\$ 2,063	\$ 7,431	\$ 1,281	\$ 7,625

**See notes to condensed consolidated financial statements.**

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED, IN THOUSAND**

	Dec. 31 2006 (unaudited)	Dec. 31 2005 (unaudited)
<b>Cash Flow from Operating Activities</b>		
Net income	\$ 1,555	\$ 8,177
Adjustments to reconcile net income to net cash flow provided by (used in) operating activities		
Depreciation and amortization	1,124	792
Bad debts expense, net	119	48
Inventory provision	144	1
Interest income on short-term deposits	(45)	(79)
Impairment Loss	172	15
Stock compensation	3	44
Gain on sale of property continued operations	(40)	
Gain on sale of property discontinued operations		(8,909)
Deferred tax provision	21	8
Minority interest	81	(19)
Changes in operating assets and liabilities, net of acquisition effects		
Accounts receivables	(3,424)	277
Other receivables	99	(185)
Other assets	(146)	
Inventories	(2,334)	330
Prepaid expenses and other liabilities	(50)	(182)
Accounts payable and accrued liabilities	2,810	350
Income tax payable	221	71
Net cash provided by operating activities	310	739
<b>Cash Flow from Investing Activities</b>		
Proceeds from short-term deposit matured	7,063	6,576
Investments in short-term deposits	(4,707)	(9,913)
Additions to property, plant and equipment	(2,020)	(704)
Proceeds from sale of equipment-continuing operation	49	
Proceeds from sale of property-discontinued operation		8,401
Advances to seller		(138)
Net cash provided by investing activities	385	4,222
<b>Cash Flow from Financing Activities</b>		
Net borrowings (payments) on lines of credits	1,831	(77)
Repayment of bank loans and capital leases	(463)	(501)
Proceeds from long-terms bank loans and capital leases	6	1,025
Proceeds from exercising stock options	16	232
Proceeds from 10% shareholder on the short swing profit of the company stock	118	

Dividends paid to minority interest	(42)	(27)
Net cash provided by financing activities	1,466	652
<b>Effect of Changes in Exchange Rate</b>	309	(18)

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	Dec. 31 2006 (unaudited)	Dec. 31 2005 (unaudited)
<b>NET INCREASE IN CASH</b>	2,470	5,595
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	2,551	1,439
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 5,021	\$ 7,034
<b>Supplementary Information Of Cash Flows</b>		
Cash paid during the period for:		
Interest	\$ 66	\$ 77
Income taxes	\$ 254	\$ 2,071
<b>NON-CASH Transactions</b>		
Capital lease of property, plant and equipment	\$ 30	\$
Declaration of cash dividends to be paid	\$ 323	\$ 1,608

**See notes to condensed consolidated financial statements.**

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NOTES TO CONDENSED 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 thereafter) 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 test 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, China and Ireland 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 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

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 six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. 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, 2006.

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

**2. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standard Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109 (FIN 48)), which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing

and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. FIN 48 will be effective as of the beginning of our fiscal year 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We expect that the adoption of FIN 48 will not have a material impact on our consolidated results of operations or financial position.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which will be effective for the fiscal year ending after November 15, 2006. The objective of SAB 108 is to eliminate diversity in practice surrounding how public companies quantify financial statement

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misstatements. SAB requires quantification of financial statement misstatements based on the effects of the misstatements on the consolidated statement of income, the consolidated balance sheet and related financial statement disclosures.

According to SAB 108, both rollover and iron curtain approaches must be considered when evaluating a misstatement for materiality. This is referred to as the dual approach. For the companies that have previously evaluated misstatements under one, but not both, of these methods, SAB 108 provides companies with a one-time option to record the cumulative effect of their prior unadjusted misstatements in a manner similar to a change in accounting principle in their annual financial statements during the effective time period if (i) the cumulative amount of the unadjusted misstatements at the beginning of the adopting year would have been material under the dual approach to their annual financial statements for the prior year or (ii) the effect of correcting the unadjusted misstatements during the adopting year would cause these annual financial statements to be materially misstated under the dual approach. In accordance with SAB 108, companies are allowed, upon adoption, to record the effects as a cumulative effect adjustment to the retained earnings. We are currently assessing what impact, if any, that adoption of SAB 108 will have on our financial position and results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS157 ), which defines fair value, established a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact adoption may have on its financial condition or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 158, Employers accounting for Defined Benefit Pension and Other Postretirement Plans, which require an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. We expect that the adoption of SFAS No. 158 will not have a material impact on our consolidated results of operations or financial position.

**3. INVENTORIES**

Inventories consisted of the following:

	Dec. 31, 2006 (Unaudited)	June 30, 2006
Raw materials	\$ 1,272	\$ 827
Works in progress	3,723	1,803
Finished goods	234	265
Less: provision for obsolete inventory	(592)	(448)
	\$ 4,637	\$ 2,447

**4. STOCK OPTIONS**

The Company had two share-based compensation plans, which are described below. The Company historically adopted the APB No. 25 approach intrinsic value method and presented the pro forma information in line with the requirements of SFAS No. 123. Historically, there was no stock based compensation cost charged against income for the fiscal years ended June 30, 2005 and 2004. There was no income tax benefit related to share-based compensation for the fiscal years ended June 30,

2005 and 2004, as the Company did not claim a deduction for corporate income tax purposes.

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payments*, using the modified prospective application method. Under this transition method, compensation cost recognized during the six months ended December 31, 2006 included the applicable amounts of: (a) compensation cost of all share-based payments granted prior to, but not yet vested as of, July 1, 2005 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123) and (b) compensation cost for all share-based payments

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granted subsequent to July 1, 2005 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123R). Amortization of unrecognized fair value of the non-vested options was \$2 and \$1 for the six months ended and three months ended December 31, 2006, respectively.

On December 2, 2005, the Board of Directors terminated these two share-based compensation plans due to the cost of such compensation exceeding the benefits. There were no stock options granted during the six months ended December 31, 2006.

**Assumptions**

The disclosure of the above fair value for these awards was estimated using the Black-Scholes option pricing model with the assumptions listed below:

	Six Months Ended December 31, 2006	June 30, 2006	Years Ended June 30, 2005	June 30, 2004
Expected volatility	73.22-81.96%	49.5-51.53%	33.5 - 36.8%	41.9%
Weighted average volatility	81.96%	49.5%	33.9%	41.9%
Risk free interest rate	4.67-5.12%	3.71-4.50%	2.89 - 3.27%	2.76%
Expected life (years)	2.00	2.00	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 terms of options. The expected terms of stock options are based on the average vesting period on a basis consistent with the historical experience of the similar option grants. The risk-free rate is consistent with the expected terms of the stock option and based on the United States Treasury yield curve in effect at the time of grant.

**1998 Stock Option Plan**

The Company's 1998 Stock Option Plan (the 1998 Plan), which is shareholder-approved, permits the grant of stock options to its employees of up to 300,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. These options have a five-year contractual life term. Awards generally vest over four years; with 25% vesting on the grant date, and the balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The share-based compensation will be amortized based on an accelerated method over the four periods. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 1998 Plan).

A summary of option activities under the 1998 Plan during the six months of fiscal 2007 ended December 31, 2006 is presented as follows:

	Options	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 1, 2006	28,885	\$ 2.97		
Granted				
Exercised	(5,835)	2.74		
Forfeited or expired	(7,250)	3.18		
Outstanding at December 31, 2006	15,800	\$ 2.96	2.00	\$ 130,937



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Exercisable at December 31, 2006	14,425	\$	2.83	2.00	\$ 121,518
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The intrinsic value of the 5,835 options exercised was \$48. Cash received from options exercised during the six months ended December 31, 2006 was approximately \$16. There were no options granted during the six months ended December 31, 2006 under the 1998 Stock Option Plan.

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A summary of the status of the Company's non-vested stock options during the six months of fiscal 2007 ended December 31, 2006 is presented below:

	<b>Options</b>		<b>Weighted-Average Grant-Date Fair Value</b>
Non-vested at July 1, 2006	13,250	\$	0.81
Granted			
Vested	(11,625)		0.76
Forfeited	(250)		0.68
Non-vested at September 30, 2006	1,375	\$	1.31

As of December 31, 2006, there was approximately \$3 of accumulated unrecognized stock compensation based on fair value on the grant date related to non-vested options granted under the 1998 Plan. That cost was expected to be recognized during the weighted average period of 1.5 years.

**Directors' Stock Option Plan**

The Directors' Stock Option Plan (the "Directors' Plan"), which is shareholder-approved, permits the grant of stock options to its duly elected non-employee Directors and one of the corporate officers of the Company (if he or she is also a director of the Company) and covers 300,000 shares of common stock. Prior to July 1, 2003, option awards were granted with an exercise price equal to 85% of the fair market price of the Company's stock at the grant date. Subsequent to July 1, 2003, the Board approved an amendment to the Directors' Plan requiring options to purchase the Company's common stock to be exercisable at a price equal to 100% of the fair market value of the underlying shares on the grant date. These options have five-year contractual terms. Options awards are exercisable immediately as of the grant date.

As of July 1, 2006, there were no stock options outstanding under the Directors' plan, and there were no options exercisable. Because the Directors' plan was terminated in December 2005, there were no options granted during the six months ended December 31, 2006.

**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 gives 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.

Stock options to purchase 15,800 shares at exercise prices ranging from \$2.66 to \$4.40 per share were outstanding as of December 31, 2006. 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 resulted common shares equivalents were approximately 12,000 shares and are presented in the following table for earnings per share calculation purposes.

Stock options to purchase 203,550 shares at exercise prices ranging from \$2.25 to \$4.50 per share were outstanding as of December 31, 2005. 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 resulted common shares equivalents were approximately 76,000 shares. However, since there was a loss from continued operations, the common share equivalents were not presented in the following table for earning 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:

	Six Months Ended		Three Months Ended	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Net (loss) income from continuing operations</b>	\$ 1,555	\$ (282)	\$ 799	\$ (446)
<b>Net income from discontinued operation</b>	\$	\$ 8,459	\$	\$ 8,837
<b>Net income attribute to common shares</b>	\$ 1,555	\$ 8,177	\$ 799	\$ 8,391
<b>Basic Earnings (Loss) Per Share</b>				
Basic (loss) earnings per share from Continuing operations	\$ 0.48	\$ (0.09)	\$ 0.25	\$ (0.15)
Basic earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Basic earnings per share from Net Income	\$ 0.48	\$ 2.71	\$ 0.25	\$ 2.76
<b>Diluted (Loss) Earnings Per Share</b>				
Diluted (loss) earnings per share from Continuing operations	\$ 0.48	\$ (0.09)	\$ 0.25	\$ (0.15)
Diluted earnings per share from Discontinued operation	0.00	2.80	0.00	2.91
Diluted earnings per share from Net Income	\$ 0.48	\$ 2.71	\$ 0.25	\$ 2.76
Weighted average number of common shares outstanding basic	3,222	3,016	3,223	3,038
Dilutive effect of stock options	12		12	
Number of shares used to compute earnings per share diluted	3,234	3,016	3,235	3,038

**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 condition, 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 six months ended December 31, 2006 and the twelve months ended June 30, 2006 was adequate.

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

	Dec. 31, 2006 (Unaudited)	June 30, 2006
Beginning	\$ 225	\$ 147
Additions charged to expenses	8	260
Recovered	(127)	(85)
Actual write-offs	(43)	(97)
Ending	\$ 63	\$ 225

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On December 5, 2006, the Board of Directors of Registrant declared a cash dividend of ten cents (U.S. 10¢) per share payable to the shareholders of record on December 15, 2006. The total number of shares issued and outstanding as of December 15, 2006 was 3,225,242 and the total cash dividends paid on January 15, 2007 were \$323.

**8. WARRANTY ACCRUAL**

	Dec. 31 2006 (Unaudited)	June 30, 2006
Beginning	\$ 142	\$ 155
Additions charged to cost and expenses	63	
Recovered	4	(1)
Actual write-offs	(1)	(12)
Ending	\$ 208	\$ 142

**9. ACQUISITION OF A SUBSIDIARY**

On January 3, 2006, the Company acquired a 100% interest in Globetronics (Shanghai) Co., Ltd. The results of operations of Globetronics, which were not material, have been included in the Condensed Consolidated Statements of Earnings (Loss) of the Company since January 3, 2006.

***Pro Forma Financial Information***

The unaudited pro forma financial information presented below summarizes the combined operating results of the Company and the acquired entity for the three months ended December 31, 2005 and six months ended December 31, 2005 as if the acquisition had occurred on July 1, 2005.

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place on July 1, 2005. The unaudited pro forma combined statements of operations combine the historical results of the Company and the historical results of the acquired entity for the periods described above.

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**PRO FORMA STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2005**

Historical

	Historical information of the Company (1)	Historical information of the acquired business (2)	Pro forma Adjustments (3)	Pro forma
Net sales	\$ 7,425	\$ 115	\$	\$ 7,540
Net income	\$ 8,391	\$ 1	\$ (3)	\$ 8,389
Basic earnings per share	\$ 2.76			\$ 2.76
Diluted earnings per share	\$ 2.76			\$ 2.76
Basic weighted average common shares outstanding	3,038			3,038
Diluted weighted average common shares outstanding	3,038			3,038

1. The historical information of the Company was based on the Form 10-Q filed with the SEC for the three months ended December 31, 2005.
2. The historical information of the acquired entity covers the three-month operating results from the books and records of Globetronics for the period from September 30, 2005 to December 31, 2005.
3. Pro forma adjustment was based on the assumption that the fair value of the identified customer relationship needs to be amortized over a one-year period of time, assuming the acquisition took place on July 1, 2005.

**PRO FORMA STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2005**

Historical

	Historical information of the Company (1)	Historical information of the acquired business (2)	Pro forma Adjustments (3)	Pro forma
Net sales	\$ 13,130	\$ 230	\$	\$ 13,360
Net (loss) income	\$ 8,177	\$ 2	\$ (6)	\$ 8,173

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Basic loss per share	\$	2.71	\$	2.71
Diluted loss per share	\$	2.71	\$	2.71
Basic weighted average common shares outstanding		3,016		3,016
Diluted weighted average common shares outstanding		3,016		3,016

1. The historical information of the Company was based on the Form 10-Q filed with the SEC for the six months ended December 31, 2005.
2. The historical information of the acquired entity covers the six-month operating results from the books and records of Globetronics for the period from July 31, 2005 to December 31, 2005.



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3. Pro forma adjustment was based on the assumption that the fair value of the identified customer relationship needs to be amortized over a one-year period of time, assuming the acquisition took place on July 1, 2005.

**10. DISCONTINUED OPERATIONS**

The Company's Ireland operation, as a component of the testing segment, suffered continued operating losses for three consecutive fiscal years and the cash flow was minimal for three consecutive years. In August 2005, the Company established a restructuring plan to close the testing operation in Dublin, Ireland. In November 2005, the Company completed the sale of said property. In accordance with EITF 03-13, we presented the operation results from Ireland as a discontinued operation.

**11. BUSINESS SEGMENTS**

The Company operates principally in three industry 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 the distribution of various products from other manufacturers in Singapore and Southeast Asia. The following net sales were based on customer location rather than subsidiary location.

The allocation of the cost of equipment, the current year investment in new equipment and depreciation expenses 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 \$61 and \$30 for the six months ended December 31, 2006 and 2005, respectively.

Corporate assets mainly consisted of cash and prepaid expenses. Corporate expenses mainly consisted of salaries, insurance, professional expenses and directors' fees.

The following segment information is unaudited:

**Business Segment Information:**

	Quarter Ended Dec. 31	Net Sales	Operating Income (loss)	Total Assets	Depr. and Amort.	Capital Expenditures
Manufacturing	2006	\$ 8,196	\$ 250	\$ 3,698	\$ 52	\$ 34
	2005	3,111	\$ (117)	\$ 2,842	\$ 27	\$ 187
Testing Services	2006	5,273	942	31,101	610	1,710
	2005	3,715	561	21,160	369	385
Distribution	2006	598	28	811	4	1
	2005	599	(1)	748	4	1
Corporate and unallocated	2006		30	562		
	2005		(817)	2,145		
Total Company	2006	\$ 14,067	\$ 1,250	\$ 36,172	\$ 666	\$ 1,745
	2005	\$ 7,425	\$ (374)	\$ 26,895	\$ 400	\$ 573

**Table of Contents****Business Segment Information:**

	Six Months Ended Dec. 31	Net Sales	Operating Income (loss)	Total Assets	Depr. and Amort.	Capital Expenditures
Manufacturing	2006	\$13,679	\$ 690	\$ 3,698	\$ 94	\$ 148
	2005	4,466	\$ (292)	\$ 2,842	\$ 50	\$ 198
Testing Services	2006	9,171	1,344	31,101	1,022	1,901
	2005	7,260	1,020	21,160	735	505
Distribution	2006	1,093	(9)	811	8	1
	2005	1,404	(2)	748	7	1
Corporate and unallocated	2006		45	562		
	2005		(881)	2,145		
Total Company	2006	\$23,943	\$2,070	\$36,172	\$1,124	\$2,050
	2005	\$13,130	\$ (155)	\$26,895	\$ 792	\$ 704

**Geographic Area Information:**

	Quarter Ended Dec. 31	United States	China and other countries	Singapore	Thailand	Malaysia	Elimin- ations and Other	Total Company
Net sales to customers	2006	\$3,486	\$2,051	\$6,313	\$634	\$1,636	\$ (53)	\$14,067
	2005	1,093	363	4,589	488	892		7,425
Operating Income (loss)	2006	277	182	560	56	145	30	1,250
	2005	12	(2)	343	37	67	(830)	(373)
Long-lived Assets	2006	14	903	4,082	774	2,688	(40)	8,421
	2005	23	20	3,683	822	2,743	(40)	7,251

**Geographic Area Information:**

	Six Months Ended Dec. 31	United States	China and other countries	Singapore	Thailand	Malaysia	Elimin- ations and Other	Total Company
Net sales to customers	2006	\$3,851	\$3,616	\$12,537	\$1,146	\$2,854	\$ (61)	\$23,943
	2005	1,527	691	8,380	949	1,613	(30)	13,130
Operating Income (loss)	2006	247	311	1,112	102	253	45	2,070
	2005	(8)	(2)	584	66	113	(908)	(155)
Long-lived Assets	2006	14	903	4,082	774	2,688	(40)	8,421
	2005	23	20	3,683	822	2,743	(40)	7,251



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**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 1 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.*

**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; and other economic, financial and regulatory factors beyond the Company's control. See the discussions elsewhere in this Form 10-Q, including under the heading Certain Risks That May Affect Our Future Results, 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 other comparable terminology.

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

**Overview**

Founded in 1958, Trio-Tech International 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. The Company operates in three business segments: Testing Services, Manufacturing and Distribution.

We own and operate facilities that provide testing services for semiconductor devices and other electronic components to meet the requirements of military, aerospace, industrial and commercial applications. We currently operate five testing facilities, one in the United States and four in Southeast Asia. The Company uses its own proprietary equipment for certain burn-in, centrifugal and leak tests, and commercially available equipment for various other environmental tests. The Company conducts the majority of its testing operations in Southeast Asia with facilities in Singapore, Malaysia and Thailand. In the second quarter of fiscal 2007, our China operations in Suzhou started its testing operation. We believe that the burn-in testing business in Suzhou will enhance our future growth opportunities and develop our China market share in testing services. Our facilities require substantial investment to construct and are largely fixed-costs assets once in operation. Because we own most of the testing capacity, a significant portion of our operating costs is fixed. In general, these costs do not decline with reductions in customer demand or our utilization of our testing capacity, and can adversely affect profit margin as a result. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over the increased output, which should improve profit margins.

Our 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, we 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, our manufacturing segment focuses on marketing used and refurbished equipment, which some of our customers are more willing to purchase as it is less expensive than new equipment.

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Due to the competitive environment in the manufacturing segment, we anticipate that we will continue to implement our ongoing 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.

Our distribution segment operates primarily in Southeast Asia. This segment markets and supports distribution of the Company's own manufactured equipment in addition to distributing complementary products from other manufacturers that are used by the Company's customers and other semiconductor and electronics manufacturers. One of the strategic business units also serves as a distributor of electronic components to customers. We continued to focus our marketing efforts on Asia, as we believe that Asian markets are growing faster than other markets due to rapid expansion in the China market. We also believe that due to our strategic position in the heart of Asia, we are in a good position to service customers in all of Southeast Asia.

**Second Quarter Fiscal 2007 Highlights**

Revenue increased 89.5% to \$14,067 for the second quarter of fiscal 2007, compared with revenue of \$7,425 for the second quarter of fiscal 2006.

Manufacturing segment revenues grew to \$8,196, compared to \$3,111 for the second quarter of fiscal 2006.

Income from continuing operations increased by \$1,245 to \$799 for the second quarter of fiscal 2007, compared with a net loss of \$446 for the second quarter of fiscal 2006.

Gross profit margins decreased slightly by 1.2% to 23.9% for the second quarter of fiscal 2007, compared with gross profit margins of 25.1% for the same period last fiscal year.

General and administrative expenses were 11.8% of revenue, decreased from 26.8% of revenue for the second quarter of fiscal 2006.

Selling expenses were 2.0% of revenue, decreased from 3.1% of revenue for the second quarter of fiscal 2006.

On December 5, 2006, we declared a dividend of \$0.10 per share, paid on January 15, 2007, to shareholders of record on December 15, 2006.

**Results of Operations and Business Outlook**

The following table sets forth our revenue components for the six and three months ended December 31, 2006 and 2005, respectively.

**Revenue Components**

	Six Months Ended		Three Months Ended	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Net Sales:				
Manufacturing	57.13%	34.02%	58.26%	41.90%
Testing	38.30	55.29	37.49	50.03
Distribution	4.57	10.69	4.25	8.07
Total	100.00%	100.00%	100.00%	100.00%

Net sales for the six months and three months ended December 31, 2006 were \$23,943 and \$14,067, an increase of \$10,813 and \$6,642, respectively, when compared to the same periods last fiscal year. As a percentage, total net sales expanded by 82.4% and 89.5% for the six months and three months ended December 31, 2006, respectively, when compared to total net sales for the same periods last fiscal year.

Net sales into and within China and the Southeast Asia regions and other countries increased by \$8,489 to \$20,092 and by \$4,249 to \$10,581 for the six months and three months ended December 31, 2006, respectively, compared to the same periods last fiscal year. This overall increase was primarily due to an increase in sales from the manufacturing segment. Net sales into and within the United States were \$3,851 and \$3,486 for the six months and three months ended December 31, 2006, an increase of \$2,324 and \$2,393, respectively, when compared to the same periods last fiscal year.

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The increase in net sales can be discussed within three segments as follows:

*Manufacturing Segment*

Net sales in the manufacturing segment as a percentage of total net sales were 57.13% and 58.26% for the six months and three months ended December 31, 2006, respectively, an increase of 23.11% and 16.36% of total net sales when compared to the same periods last fiscal year. The absolute amount of net sales were \$13,679 and \$8,196 for the six months and three months ended December 31, 2006, an increase of \$9,213 and \$5,085, respectively, when compared to the same period last fiscal year. The increase in revenue generated by the manufacturing segment was due to a continuing increase in demand from the personal computer market in Asia, which in turn led to a greater demand for our products. We believe that the demand for our burn-in systems increased concurrently with the demand for more microprocessor chips in Southeast Asia. Such increase resulted from a hike in demand from one of our major customers, which was a result of that customer's growing share in the market for microprocessor chips.

*Testing Segment*

Net sales in the testing segment as a percentage of total net sales were 38.3% and 37.49% for the six months and three months ended December 31, 2006, respectively, a drop of 16.99% and 12.54%, respectively, of total net sales when compared to the same period last fiscal year. However, absolute amount of net sales in the testing segment increased by \$1,911 to \$9,171 and by \$1,558 to \$5,273 for the six months and three months ended December 31, 2006, respectively, compared to the same periods of fiscal 2006. The testing segment continued to show improvement in revenue compared to the same periods last fiscal year due to an increase in the demand for testing services in Southeast Asia, which resulted from the strong economic growth and robust development in the electronics manufacturing industries in China. The increase in revenue generated by the testing segment was attributable to our testing operations in Singapore and China. The Singapore testing operation achieved a better sales performance compared to their performance in the same period in fiscal 2006 due to a hike in demand for testing services in Southeast Asia. Furthermore, our China operation in Suzhou started its testing operation in the second quarter of fiscal 2007, which also contributed to this improvement in revenue. Demand for testing services varies from time to time depending on changes taking place in the market and our customers' forecasts. We anticipate that our customers will continue to request our services to perform burn-in on chips to be used in wireless handsets, automotive applications and wired communications, all of which are currently in high demand in their respective markets.

*Distribution Segment*

Net sales in the distribution segment accounted for 4.57% and 4.25% of total net sales for the six months and three months ended December 31, 2006, respectively, a decrease of 6.12% and 3.82% compared to the same periods in fiscal 2006. The absolute amount of net sales decreased by \$311 to \$1,093 and by \$1 to \$598 for the six months and three months ended December 31, 2006, respectively, compared to the same periods in fiscal 2006. The decrease in revenue was mainly attributable to fewer bookings from customers resulting from a saturation of equipment and electronic components in the current market. In addition, there was a sale of one wet bench of \$229 in the second quarter of last fiscal year; however, there was no sale of a comparable amount in the current quarter of fiscal 2007. Product volume for the distribution segment depends on sales activities such as bookings, queries on products and backlog. Equipment and electronic component sales are very competitive, as the products are prevalent in the market.

*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 other similar factors. One of these factors 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 action to protect itself and has formulated plans for dealing with these unpredictable factors. For example, in order to meet 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 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 them 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.

**Table of Contents****Comparison of the Second Quarter Ended December 31, 2006 and December 31, 2005**

The following table sets forth certain consolidated statements of income data as a percentage of net sales for the three months ended December 31, 2006 and 2005, respectively:

	<b>Three Months Ended December</b>	
	<b>31</b>	
	<b>2006</b>	<b>2005</b>
<b>Net Sales</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of Sales	76.1%	74.9%
<b>Gross Margin</b>	<b>23.9%</b>	<b>25.1%</b>
Operating Expenses		
General and administrative	11.8%	26.8%
Selling	2.0%	3.1%
Research and development	0.1%	0.2%
Impairment Loss	1.2%	0.0%
Total Operating Expenses	15.1%	30.1%
<b>Income (loss) from operations</b>	<b>8.8%</b>	<b>-5.0%</b>

*Overall Gross Margin*

Overall gross margin dropped by 1.2% for the three months ended December 31, 2006, from 25.1% in the second quarter of last year to 23.9%. The lower margin was primarily because the increase in sales from the manufacturing segment as a percentage to total sales was higher than the decrease in sales from the testing segment as a percentage total sales in the second quarter of fiscal 2007, and the gross margin in the manufacturing segment is lower than the gross margin of the testing segment. In terms of dollar value, the overall gross margin increased by \$1,500 for the three months ended December 31, 2006 from \$1,866 to \$3,366, compared to the same quarter last fiscal year, as a result of the better sales performance by the Singapore manufacturing segment.

Gross profit margin in the manufacturing segment decreased slightly from 12.8% in the second quarter of fiscal 2006 to 12.1% in the same quarter in fiscal 2007. Neither the increase in the absolute dollar amount of sales of burn-in boards and burn-in systems nor the increase in the quantity sold in the second quarter were sufficient to maintain or increase the gross margin in the manufacturing segment due to the decrease in sales prices for the burn-in boards and burn-in systems had lower. However, the Company wishes to continue manufacturing low-margin burn-in boards in order to maintain market share of this product. In absolute amounts, gross profits increased by \$597 to \$995 for the three months ended December 31, 2006, from \$398 in the same quarter last year. The increase was mainly attributable to an increase in revenue from \$3,111 for the second quarter of fiscal 2006 to \$8,196 in the same quarter of fiscal 2007.

Gross profit margin in the testing segment increased by 4.8% for the three months ended December 31, 2006 compared to the same quarter last fiscal year, from 37.0% to 41.8%, primarily due to higher sales volume with lower overhead cost, especially in the China operation. Significant portions of our operating costs are fixed in the testing segment, thus as product demand rises and factory utilization increases, the fixed costs are spread over the increased output, which improves profit margin. However, this was offset by a drop in the average selling price of services in the Singapore Testing operation. Our customers changed their demands and requirements, which resulted in a lower average unit selling price for many of our services. However, we expect that the effect of such trend may be offset in the future by the increase in burn-in services demanded for the faster microprocessor chips. Gross profits in the testing segment were \$2,204 and \$1,376 for the three months ended December 31, 2006 and 2005, respectively.

Gross profit margin in the distribution segment increased by 12.5%, from 15.4% in the second quarter of fiscal 2006 to 27.9% in the second quarter of this fiscal year. Sales in the second quarter of fiscal 2006 included one wet bench with higher material cost. However, second quarter 2007 sales were mainly from back-end products, such as vibration testers and chambers, which have a slightly higher margin than the wet bench products. Gross profits were \$167 and \$92 for the three months ended December 31, 2006 and 2005, respectively.

**Table of Contents***Operating Expenses*

The following table presents the operating expenses for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
General and administrative	\$ 1,653	\$ 1,993
Selling	\$ 274	\$ 230
Research and development	\$ 17	\$ 16
Impairment Loss	\$ 172	\$
<b>Total</b>	<b>\$ 2,116</b>	<b>\$ 2,239</b>

General and administrative expenses decreased by \$340 (or 17.1%) to \$1,653 for the three months ended December 31, 2006 from \$1,993 in the same quarter last fiscal year. While in the second quarter of fiscal 2006 we accrued a director and officer bonus of \$705, attributable to the sale of property in Dublin, Ireland, there was no such accrual in the second quarter of fiscal 2007, thus decreasing expenses for the second quarter of fiscal 2007. However, this decrease was offset by the increase in operating expenses in the China operation in Suzhou, which was a result of the operation starting up in the second quarter of fiscal 2007, and an increase in payroll and related expenses as a result of a rise in headcount in the Singapore operation. Selling expenses increased by \$44 (or 19.1%) for the three months ended December 31, 2006, from \$230 to \$274, compared to same quarter last fiscal year, mainly due to an increase in commission expenses as a result of higher commissionable sales in the manufacturing segment. Research and development costs slightly increased to \$17 in the second quarter of fiscal 2007 from \$16 in the same quarter last fiscal year.

The impairment loss increased to \$172 for the three months ended December 31, 2006 from \$0 in the same period last fiscal year. The Company reviews the carrying amount of assets held for use and those to be disposed of whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss in the second quarter of fiscal 2007 consisted of machinery and equipment with a cost of \$423 and related accumulated depreciation in the amount of \$251. Due to the decrease in demand for the slower speed microprocessor chips, those of our existing burn-in facility assets in the Singapore operation used for testing chips became obsolete. Since there will be no future cash flows from those assets, the carrying value of these assets was written down to zero, and the impairment cost was recorded.

*Income from operations*

Income from operations increased by \$1,623 from a net operating loss of \$373 to a gain of \$1,250 for the three months ended December 31, 2006, mainly due to an increase in net sales in the manufacturing segment and testing segment as a result of increased market demand for our products and services in the technology sector.

*Interest Expense*

The following table presents the interest expenses for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Interest expense</b>	\$ 37	\$ 38

Interest expense decreased slightly compared to the same quarter last fiscal year.

*Other Income*

The following table presents the other income for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Other income</b>	\$ 73	\$ 82

Other income decreased by \$9 (or 11.0%) for the three months ended December 31, 2006 from \$82 to \$73 compared to the same quarter last fiscal year. The decrease in other income was primarily due to a decrease in interest income generated from short-term deposits, though offset by currency transaction gain. Interest income was \$16 for the three months ended December

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31, 2006 and was \$40 lower than the interest income generated in the same quarter last fiscal year. Currency transaction gain increased by \$35 for the three months ended December 31, 2006 from \$1 to \$36, compared to the same quarter last fiscal year. This was attributable to the weakening of the U.S. dollar against foreign currency in U.S. denominated assets.

*Income Tax*

Income tax provision for the three months ended December 31, 2006 was \$453, an increase of \$341 (or 304.5%) compared to the income tax provision of \$112 for the same time period last fiscal year. The increase for the second quarter 2007 was related to a higher tax provision for the increased income generated from the Singapore operations. The income tax amount included a provision for deferred tax liability of \$114 for the Singapore operation, The provision for deferred tax liability was for possible future tax liability regarding the allocation of corporate expenses from the United States, and also for the temporary difference of taxable income and financial income resulting from a different depreciation basis for financial and tax purposes.

*Minority Interest*

As of December 31, 2006, we held a 55% interest in Trio-Tech Malaysia. The minority interest for the three months ended December 31, 2006 in the net income of subsidiaries was \$34, an increase of \$29 compared to a minority interest in the net income of \$5 for the same quarter of fiscal 2006. The increase in the minority interest was attributable to the improvement in the net income generated from the Malaysia testing operation and an increase in translation gain as the result of an increase in the exchange rate between U.S. dollars and Singapore dollars.

*Income from Discontinued Operations*

The income from discontinued operations of \$8,837 for the three months ended December 31, 2005 represents gain from the sale of property located in Dublin, Ireland of \$8,909, which was completed in November 2005, offset by a loss from discontinued operations of \$72. The Company had no similar loss for the quarter ended December 31, 2006.

*Net Income*

Net income for the three months ended December 31, 2006 was \$799, a decrease of \$7,592 compared to \$8,391 in the same quarter of fiscal 2006. Such a decrease was primarily due to a drop in income from discontinued operations of \$8,837, as there was no income generated from discontinued operations in the current quarter, offset by an increase in income from continuing operations of \$1,245 due to strong demands of our products, as previously discussed.

*Earnings per Share*

Basic and diluted earnings per share from continuing operations for the three months ended December 31, 2006 increased by \$0.40 from a loss per share of \$0.15 in the second quarter 2006 to an earning per share of \$0.25 in the second quarter of 2007. There was no income or loss from discontinued operations for the second quarter of fiscal 2007. Basic and diluted earnings per share attributable to discontinued operations for the three months ended December 31, 2005 were \$2.91 per share.

**Segment Information**

The revenue, gross margin and income from each segment for the second quarters of fiscal 2007 and 2006, 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 following table presents the revenue, gross margin and income (loss) from operations for the manufacturing segment for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 8,196	\$ 3,111
Gross margin	12.1%	12.8%
Income (loss) from operations	\$ 250	\$ (117)

Income from operations in the manufacturing segment increased by \$367 to \$250 for the three months ended December 31, 2006, from a loss of \$117 in the same quarter last fiscal year. The improvement in operating profit was

attributable to the \$597 increase in gross profit, but offset by an increase in operating expenses of \$230. Operating expenses for the manufacturing

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segment were \$745 and \$515 for the three months ended December 31, 2006 and 2005, respectively. The increase in operating expenses was mainly attributable to an increase in payroll and related expenses as a result of the increase in headcount in the Singapore operations in the first and second quarters of fiscal 2007.

*Testing Segment*

The following table presents the revenue, gross margin and income from operations for the testing segment for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 5,273	\$ 3,715
Gross margin	41.8%	37.0%
Income from operations	\$ 942	\$ 561

Income from the testing segment increased by \$381 to \$942 for the three months ended December 31, 2006 from \$561 in the same quarter last fiscal year. The improvement in operating profit was attributable to an \$828 increase in gross profit, but offset by an increase in operating expenses of \$447. Operating expenses were \$1,262 and \$815 for the three months ended December 31, 2006 and 2005, respectively. This jump in operating expenses was mainly due to an increase in payroll and related expenses as a result of the increase in headcount in the Singapore operations in the first and second quarters of fiscal 2007.

*Distribution Segment*

The following table presents the revenue, gross margin and income (loss) from operations for the distribution segment for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 598	\$ 599
Gross margin	27.9%	15.4%
Income (loss) from operations	\$ 28	\$ (1)

Income from the distribution segment increased by \$29 for the three months ended December 31, 2006 from an operating loss of \$1 in the second quarter of fiscal 2006 to an operating income of \$28 in the same quarter of fiscal 2007. The operating income in the second quarter 2007 was attributable to an increase in gross profit of \$75, but offset with an increase in operating expenses of \$46. Operating expenses were \$139 and \$93 for the three months ended December 31, 2006 and 2005, respectively. Such an increase in operating expenses was mainly attributable to an increase in commission expenses as a result of higher commissionable sales.

*Corporate*

The following table presents the income (loss) from operations for Corporate for the second quarters ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Three Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Income (loss) from operations	\$ 30	\$ (817)

Corporate operating income increased by \$847 for the three months ended December 31, 2006, from an operating loss of \$817 to an operating income of \$30. The improvement in corporate income was attributable to an increase in the fee imposed on all the subsidiaries on a fixed percentage of revenue as the result of increased revenue from subsidiaries. The other factor was operating expenses last fiscal year included a special directors and officers bonus of \$705 attributable to the sale of property in Dublin, Ireland. The Company had no similar bonuses for the quarter ended December 31, 2006.





**Table of Contents****Comparison of the Six Months Ended December 31, 2006 and 2005**

The following table sets forth certain consolidated statements of (loss) income data as a percentage of net sales for the six months ended December 31, 2006 and 2005, respectively:

	<b>Six Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Net Sales</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of Sales	75.5%	71.9%
<b>Gross Margin</b>	<b>24.5%</b>	<b>28.1%</b>
Operating Expenses		
General and administrative	12.7%	25.0%
Selling	2.2%	3.9%
Research and development	0.2%	0.3%
Impairment Loss	0.7%	0.1%
Total Operating Expenses	15.8%	29.3%
<b>Income (loss) from operations</b>	<b>8.7%</b>	<b>-1.2%</b>

*Overall Gross Margin*

Although the gross profit margin in each segment slightly increased calculated on an actual dollar basis in the six months ended December 31, 2006, the overall gross margin as a percentage of total revenue dropped by 3.6% from 28.1% in the same period last fiscal year. The lower overall margin was primarily due to an increase in the percentage of total net sales from the manufacturing segment, which has a lower margin. The net sales in the manufacturing segment as a percentage of total net sales increased by 23.11% to 57.13% of total net sales for the six months ended December 31, 2006, compared to 34.02% of total net sales in the same period of last fiscal year. Net sales in the testing segment, which has a higher profit margin, dropped by 16.99% to 38.30% of total net sales for the six months ended December 31, 2006, compared to 55.29% of total net sales in the same period of last fiscal year. In terms of dollar value, the overall gross margin increased by \$2,166 for the six months ended December 31, 2006 from \$3,690 to \$5,856, compared to the same period of fiscal 2007, as a result of the better sales performance in the Singapore manufacturing segment.

Gross profit margin in the manufacturing segment increased slightly by 0.8% for the six months ended December 31, 2006 compared to the same period last fiscal year, from 14.5% to 15.3%. In absolute amounts, gross profit was \$2,096, an increase of \$1,450 for the six months ended December 31, 2006, from \$646 in the same period last year. Such an increase was mainly attributable to a hike in revenue in the first half fiscal 2007 compared to fiscal 2006 as the demand for our products increased.

Gross profit margin in the testing segment increased slightly by 0.6% for the six months ended December 31, 2006 compared to the same period last fiscal year, from 37.7% to 38.3%, primarily due to a drop in the average selling price of services. In absolute amount, gross profits in the testing segment were \$3,513 and \$2,735 for the six months ended December 31, 2006 and 2005, respectively.

Gross profit margin in the distribution segment increased slightly by 0.6%, from 22.0% for the six months ended December 31, 2005 to 22.6% in the same period this fiscal year. Sales in the distribution segment were mainly from lower margin back-ends products, which were consistent with the same period last fiscal year. Gross profits were \$247 and \$309 for the six months ended December 31, 2006 and 2005, respectively.

*Operating Expenses*

The following table presents the operating expenses for the six months ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Six Months Ended December</b>	
	<b>2006</b>	<b>2005</b>
General and administrative	\$ 3,044	\$ 3,282
Selling	\$ 536	\$ 515
Research and development	\$ 34	\$ 33
Impairment Loss	\$ 172	\$ 15
<b>Total</b>	<b>\$ 3,786</b>	<b>\$ 3,845</b>

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General and administrative expenses decreased by \$238 (or 7.3%) to \$3,044 for the six months ended December 31, 2006 from \$3,282 in the same period last fiscal year. This decrease was due to an accrued director and officer bonus of \$705 attributable to the sale of property in Dublin, Ireland in the second quarter of fiscal 2006. The Company did not have or accrue a similar officers and directors bonus in the first half of 2007. , This decrease was offset by the increase in operating expenses in our China operation in Suzhou, which were a result of the operation starting up in the second quarter of fiscal 2007, and an increase in payroll and related expenses as a result of a rise in headcount in the Singapore operations.

Selling expenses increased by \$21 (or 4.0%) for the six months ended December 31, 2006 compared to the same period last fiscal year, from \$515 to \$536, mainly due to an increase in commissions expenses in the manufacturing segment as a result of higher commissionable sales and offset by lower commission expenses in the distribution segment due to a drop in the net sales.

Research and development costs increased slightly to \$34 in the six months ended December 31, 2006 compared to the same period last fiscal year.

The impairment loss increased to \$172 for the six months ended December 31, 2006 from \$15 in the same period last fiscal year. The impairment loss in the first half of fiscal 2007 consisted of machinery and equipment with a cost of \$423 and related accumulated depreciation in the amount of \$251. Due to the decrease in demand for the slower speed microprocessor chips, those of our existing burn-in facility assets in the Singapore operation used for testing chips became obsolete. Since there will be no future cash flows from those assets, the carrying value of these assets was written down to zero, and the impairment cost was recorded.

*Income from operations*

Income from operations increased by \$2,225 from a net operating loss of \$155 to a gain of \$2,070 for the six months ended December 31, 2006, mainly due to an increase in net sales in the manufacturing segment and testing segment as a result of increased market demand.

*Interest Expense*

The following table presents the interest expenses for the six months ended December 31, 2006 and 2005, respectively:

	<b>Six Months Ended December 31</b>	
<b>(In Thousands, unaudited)</b>	<b>2006</b>	<b>2005</b>
<b>Interest expense</b>	\$ 66	\$ 74

Interest expenses decreased by \$8 (or 10.8%) during the first six months of fiscal 2007 compared to the same period last year, primarily due to lower interest rates charged and lower usage of credit line facilities by the Singapore operation for the six months ended December 31, 2006 when compared to the same period last year.

*Other Income*

The following table presents the other income for the six months ended December 31, 2006 and 2005, respectively:

	<b>Six Months Ended December 31</b>	
<b>(In Thousands, unaudited)</b>	<b>2006</b>	<b>2005</b>
<b>Other income</b>	\$ 110	\$ 112

Other income decreased by \$2 (or 1.8%) for the six months ended December 31, 2006 compared to the same period last fiscal year, from \$112 to \$110. The decrease in other income was due to a decrease in interest income generated from short-term deposits, though offset by the increase in rental income and currency transaction gain. Interest income was \$53 for the six months ended December 31, 2006 and was \$21 lower than the interest income generated in the same quarter last fiscal year. Rental income increased by \$15 to \$53 for the six months ended December 31, 2006 from \$38 in the same period of last year. Currency transaction gain increased by \$8 to \$9 for the six months ended December 31, 2006 from \$1, compared to the same period last fiscal year, which was attributable to the weakening of the U.S. dollar against foreign currency in U.S. denominated assets.



**Table of Contents***Income Tax*

Income tax provision for the six months ended December 31, 2006 was \$478, an increase of \$294 (or 159.8%) compared to an income tax provision of \$184 for the same period last fiscal year. The increase for this first half of fiscal 2007 was related to a higher tax provision for the increased income generated from the Singapore operations. The income tax amount included a provision for deferred tax liability of \$1 for the Singapore operation.

*Minority Interest*

As of December 31, 2006, we held a 55% interest in Trio-Tech Malaysia. The minority interest for the six months ended December 31, 2006 in the net income of subsidiaries was \$81, an increase of \$100 compared to a minority interest in the net loss of \$19 for the same period last fiscal year. The increase in the minority interest was attributable to the improvement in the net income generated from the Malaysia testing operation and an increase in translation gain as the result of an increase in the exchange rate between U.S. dollars and Singapore dollars.

*Income from Discontinued Operations*

The income from discontinued operations of \$8,459 for the six months ended December 31, 2005 represents gain from the sale of property located in Dublin, Ireland of \$8,909, which was completed in November 2005, offset by the loss from discontinued operations of \$450. The Company had no similar loss for the first half of fiscal 2007.

*Net Income*

Net income for the six months ended December 31, 2006 was \$1,555 a decrease of \$6,622 compared to \$8,177 in the same period last fiscal year. Such a decrease was primarily due to a drop in income from discontinued operations of \$8,459, as there was no income generated from discontinued operations in the current quarter, offset by an increase in income from continuing operations of \$1,837, compared with the same period last fiscal year due to strong demands of our products, as previously discussed.

*Earnings per Share*

Basic and diluted earnings per share from continuing operations for the six months ended December 31, 2006 were \$0.48, an increase of \$0.57 from a loss per share of \$0.09 in the same period last fiscal year. There was no income or loss from discontinued operations for the first half of fiscal 2007. Basic and diluted earnings per share attributable to discontinued operations for the six months ended December 31, 2006 were \$2.80 per share.

**Segment Information**

The revenue, gross margin and income from each segment for the first half of fiscal 2007 and 2006, 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 following table presents the revenue, gross margin and income (loss) from operations for the manufacturing segment for the six months ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Six Months Ended December</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 13,679	\$ 4,466
Gross margin	15.3%	14.5%
Income (loss) from operations	\$ 690	\$ (292)

Income from operations in the manufacturing segment increased by \$982 to \$690 for the six months ended December 31, 2006, from a loss of \$292 in the same period last fiscal year. The improvement in operating profit was attributable to the \$1,450 increase in gross profit, but offset by an increase in operating expenses of \$468. Operating expenses for the manufacturing segment were \$1,406 and \$938 for the six months ended December 31, 2006 and 2005, respectively. The increase in operating expenses was mainly attributable to an increase in payroll and related expenses as a result of the rise in headcount in the Singapore operations in the first half of fiscal 2007.

**Table of Contents***Testing Segment*

The following table presents the revenue, gross margin and income from operations for the testing segment for the six months ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Six Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 9,171	\$ 7,260
Gross margin	38.3%	37.7%
Income from operations	\$ 1,344	\$ 1,020

Income from the testing segment increased by \$324 to \$1,344 for the six months ended December 31, 2006 from \$1,020 in the same period last fiscal year. Such an increase in operating income was attributable to an increase in gross profits of \$778, but offset by an increase in operating expenses of \$454. Operating expenses were \$2,169 and \$1,715 for the six months ended December 31, 2006 and 2005, respectively. This jump in operating expenses was mainly due to an increase in payroll and related expenses as a result of the rise in headcount in the Singapore operations in the second quarter of fiscal 2007.

*Distribution Segment*

The following table presents the revenue, gross margin and income (loss) from operations for the distribution segment for the six months ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Six Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Revenue	\$ 1,093	\$ 1,404
Gross margin	22.6%	22.0%
Loss from operations	\$ (9)	\$ (2)

Loss from the distribution segment increased by \$7 for the six months ended December 31, 2006 from an operating loss of \$2 in the same period of fiscal 2006 to \$9 this year. The operating loss was attributable to a decrease in gross profit of \$62, but offset by a decrease in operating expenses of \$55. This decrease in operating expenses was mainly due to lower commission expenses due to a drop in net sales. Operating expenses were \$256 and \$311 for the six months ended December 31, 2006 and 2005, respectively.

*Corporate*

The following table presents the income (loss) from operations for Corporate for the six months ended December 31, 2006 and 2005, respectively:

<b>(In Thousands, unaudited)</b>	<b>Six Months Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Income (loss) from operations	\$ 45	\$ (881)

Corporate operating income increased by \$926 for the six months ended December 31, 2006, from an operating loss of \$881 to an operating income of \$45. The improvement in corporate income was attributable to an increase in the fee imposed on all the subsidiaries on a fixed percentage of revenue as the result of increased revenue from subsidiaries. Another factor was operating expenses last fiscal year included an accrued director and officer bonus of \$705 attributable to the sale of a property in Dublin, Ireland. The Company had no similar bonuses for the first half of fiscal year 2007.

**Financial Condition**

During the six months ended December 31, 2006, total assets increased \$6,788 from \$29,384 at June 30, 2006 to \$36,172 at December 31, 2006. The majority of the increase was in cash, accounts receivables, inventory, property, plant and equipment, prepaid expenses and other current assets.

At the end of the second quarter of fiscal 2007, total cash and short-term deposits were \$10,549, an increase of \$159 from fiscal year-end 2006. During the first two quarters of fiscal 2007, cash increased by \$2,470 due to the increase in net proceeds from the maturity of short-term deposits in the Singapore operation and increased sales, but was offset by capital expenditures of \$2,020.



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Accounts receivables at the end of the second quarter of fiscal 2007 increased \$3,305 from fiscal year-end 2006, primarily due to higher sales generated in the second quarter of fiscal 2007. The total sales from all three segments for the six months ended December 31, 2006 were \$23,943, an increase of \$10,813 or 82.4%, compared to the total sales of \$13,130 for the same period last fiscal year. The accounts receivables turnover was 78 days at the end of the second quarter of fiscal 2007 compared with 80 days at fiscal year-end 2006. The decrease in the accounts receivables turnover was primarily due to improvement in collections in the Singapore operations.

Inventories were \$4,637 at the end of the second quarter of fiscal 2007, reflecting an increase of \$2,190 from fiscal year-end 2006. The rise in inventory was from an increase in work-in-process inventory and raw material inventory of \$1,883 and \$355, respectively, but offset by a decrease in finished goods inventory of \$48. The increase was because we built inventory to support expected product shipments in the last two quarters of fiscal 2007. The turnover of inventory was 36 days at the end of the second quarter of fiscal 2007 compared with 35 days at fiscal year-end 2006. Property, plant and equipment increased by \$1,088 from \$7,073 at June 30, 2006 to \$8,161 at December 31, 2006. Capital expenditures were \$2,020 in the first six months of fiscal 2007, compared with \$704 for the first six months of fiscal 2006. The increase in capital expenditures was mainly due to higher purchases of machinery and equipment during the first six months of fiscal 2007 for the Singapore Testing operation and China Testing operation in order to meet customers requirements.

Depreciation and amortization was \$1,124 for the first six months of fiscal 2007, compared with \$792 for the first six months of fiscal 2006. The increase in depreciation expenses was mainly due to the increase in property, plant and equipment in the first two quarters of 2007 as compared to the first two quarters of 2006.

Prepaid expenses and other current assets at the end of the second quarter of fiscal 2007 were \$220, an increase of \$50 from fiscal year-end 2006, primarily due to increased prepayments of insurance premiums in the Singapore operation.

**Liquidity and Capital Resources**

Net cash provided by operating activities decreased by \$429, or 58.1%, for the six months ended December 31, 2006 from a net cash inflow of \$739 in the same period last fiscal year. The decrease in the net cash provided by operating activities was primarily due to (i) the decrease in net income from \$8,177 to \$1,555 during the first six months of fiscal 2007 as compared to the same period last fiscal year; (ii) the negative cash outflow of \$3,424 from accounts receivable this year as compared to a positive cash inflow of \$277 from accounts receivable last year; and (iii) an increase in the working capital expenditures, particularly for inventory. The decrease in net income was because of a gain on sale of property in Dublin, Ireland of \$8,909 in the second quarter of fiscal 2006. However, the gain on sale of property, plant and equipment in the first two quarters of fiscal 2007 was \$40. The decrease in capital gain offset the decrease in net cash by \$8,869. Also offsetting the decrease in cash flow was an increase in cash inflow of \$2,460 from accounts payable and accrued liabilities.

Net cash provided by investing activities decreased by \$3,837 to \$385 for the six months ended December 31, 2006 from a cash flow of \$4,222 for the same period last fiscal year. The decrease in net cash provided by investing activities was primarily due to the net proceeds of \$8,401 from discontinued operations on the sale of property in Dublin, Ireland in the second quarter of fiscal 2006. The proceeds from sales of equipment during the first six months of fiscal 2007 were \$49. The capital expenditure in the first two quarters of fiscal 2007 increased by \$1,316 to \$2,020 from \$704 in the same period last fiscal year. The increase in capital expenditure was mainly due to higher purchases of machinery and equipment during the first two quarters of fiscal 2007 in the Singapore and China operations in order to meet customers requirements. Offsetting the decrease in cash flow from the investing activities was an increase of \$5,693 in the net proceeds from maturing short-term deposits.

Net cash provided by financing activities in the first two quarters of fiscal 2007 was \$1,466, an increase of \$814 compared to the net cash provided by financing activities of \$652 during the first two quarters of fiscal 2006. The increase was due mainly to the higher proceeds from lines of credit of \$1,831 during the first two quarters of fiscal 2007 compared to the net repayment of \$77 for lines of credits incurred in the first two quarters of fiscal 2006. Also contributed to the increase in the net cash provided by financing activities was a proceeds of \$118 received from a 10% shareholder for disgorgement of short-swing profits from prohibited transactions in our common shares pursuant to section 16(b) of the Securities and Exchange Act of 1934. However, the increase was offset by a decrease of \$1,019 in the proceeds from long-term bank loans and capital leases during the first six months of fiscal 2007 compared to

\$1,025 during the six months of fiscal 2006, and a decrease of \$216 in cash proceeds from stock options exercised. We believe we have the necessary financial resources to meet our projected cash requirements for at least the next twelve months.

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**Corporate Guarantee Arrangement**

The Company provides a corporate guarantee of approximately \$1,630 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**

There have been no significant changes in the critical accounting policies 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. 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.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk.* We do not use derivative financial instruments in our investment portfolio. Our investment portfolio is generally comprised of cash deposits. Our policy is to place these investments in instruments that meet high credit quality standards. These securities are subject to interest rate risk, and could decline in value if interest rates fluctuate and thus subject us to market risk due to those fluctuations. Due to the short duration and conservative nature of our investment portfolio, we do not expect any material loss with respect to our investment portfolio, though no assurances can be given that material losses will not occur.

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As of December 31, 2006, the outstanding aggregate principal balance on these loans, capital leases and lines of credit was approximately \$3,358. The interest rates on our loans and lines of credit range from 0.81% to 7.50% per annum. These interest rates are subject to change and we cannot predict an increase or decrease in rates, if any.

	Dec. 30, 2006 (unaudited)	June 30, 2006
<b>Loans:</b>		
Denominated by Singapore dollars; interest is at the bank's prime rate (5.75% at December 31, 2006 and June 30, 2006) plus 0.5% per annum	\$	\$ 70
Denominated by Singapore dollars; interest rate fixed at 5.91%		23
Denominated by Singapore dollars; interest is at the bank's prime rate (4.25% at December 31, 2006 and June 30, 2006) plus 1% per annum	111	198
Denominated by Singapore dollars; interest is at the bank's prime rate (4.25% at December 31, 2006 and June 30, 2006) plus 1% per annum	258	345
Denominated by Thailand baht; interest is at the bank's prime rate (7.50% at December 31, 2006 and June 30, 2006)	68	95
Denominated by Singapore dollars; interest is at the bank's prime rate (3.346% at December 31, 2006 and 3.41% at June 30, 2006) plus 3.5% per annum	435	509
Denominated by Singapore dollars; interest is at the bank's prime rate (4.25% at December 31, 2006 and June 30, 2006) plus 1% per annum	218	260
Subtotal	\$1,090	\$1,500
<b>Capital leases:</b>		
denominated by Singapore dollars with an interest rate ranging from 4.19% to 6.02% per annum	\$ 305	\$ 316
denominated by Malaysia ringgit with a fixed interest rate at 4.30% per annum	11	14
denominated by U.S. dollars with a fixed interest rate at 0.81% per annum	5	7
Subtotal	\$ 321	\$ 337
<b>Line of credit:</b>		
Denominated by Singapore dollars; interest is at the bank's prime rate (3.346% at December 31, 2006, and 5.75% at June 30, 2006) plus 0.20% per annum at December 31, 2006 and 0.25% per annum at June 30, 2006.	\$1,947	\$ 116

Subtotal	\$1,947	\$ 116
Total	\$3,358	\$1,953

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The outstanding aggregate principal balance on these loans, capital leases and lines of credit were mainly utilized by the testing segment for investments in facilities and equipment to meet customers' requirement. One of the Singapore operations used 53.9% of such credit facility as of December 31, 2006. Nevertheless, the Singapore operation was able to meet repayment of loans and capital obligation, as the majority of the overall net sales were generated by this operation. The Thailand operation utilized term loans to finance the extension of a building in Bangkok and it will be able to meet its obligations thereunder as the operation has been generating cash for the past few years.

*Foreign Currency Exchange Rate Risk.* Although the majority of our sales, cost of manufacturing and marketing are transacted in U.S. dollars, significant portions of our revenue are denominated in Singapore and Euro dollars, Malaysian ringgit, Thai Baht and other currencies. Consequently, a portion of our costs, revenues and operating margins may be affected by fluctuations in exchange rates, primarily between the U.S. dollar and such foreign currencies. We are also affected by fluctuations in exchange rates if there is a mismatch between our foreign currency denominated assets and liabilities. Foreign currency translation adjustments resulted in an increase of \$75 and \$989 to shareholders' equity for the six months ended December 31, 2006 and 2005, respectively.

We try to reduce our risk of foreign currency fluctuations by purchasing certain equipment and supplies in U.S. dollars and seeking payment, when possible, in U.S. dollars. However, we may not be successful in our attempts to mitigate our exposure to exchange rate fluctuations. Those fluctuations could have a material adverse effect on the Company's financial results.

**ITEM 4. 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, 2006, 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. 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 over financial reporting.

**Table of Contents****TRIO-TECH INTERNATIONAL**  
**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Not applicable

**Item 1A. Risk Factors****CERTAIN RISKS THAT MAY AFFECT OUR FUTURE RESULTS**

In addition to the other information set forth in this report, shareholders should carefully consider the factors discussed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2006, which factors could materially affect our business, financial condition and/or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. In addition to the risks so noted, we also note as follows:

**Possible Dilutive Effect of Outstanding Options**

As of December 31, 2006, there were 15,800 shares of common stock reserved for issuance upon exercise of outstanding stock options. The outstanding options are currently exercisable at exercise prices ranging from \$2.66 to \$4.40 per share. We anticipate that the trading price of our common stock at the time of exercise of any such outstanding options will exceed the exercise price under those options. Thus, such exercise will have a dilutive effect on our shareholders.

**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 Vote of Security Holders**

An annual meeting of shareholders was held December 5, 2006. 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:

	Votes			
Director	Votes For	Withheld	No Vote	Total
Jason Adelman	2,586,920	346	635,226	3,222,492
Richard Horowitz	2,586,883	383	635,226	3,222,492
A. Charles Wilson	2,507,303	79,963	635,226	3,222,492
Yong Siew Wai	2,525,703	61,563	635,226	3,222,492

**Item 5. Other Information**

Not applicable

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**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.

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**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 09, 2007

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