TRIO TECH INTERNATIONAL
Form 10-Q
November 20, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2009

OR

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

For the Transition Period from ___ to ___

Commission File Number 1-14523

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

California (State or other jurisdiction of incorporation or organization)	95-2086631 (I.R.S. Employer Identification Number)
16139 Wyandotte Street Van Nuys, California (Address of principle executive offices)	91406 (Zip Code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 10, 2009
[Common Stock, $0.01 par value per share]	3,227,430 shares

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INDEX TO CONSOLIDATED FINANCIAL INFORMATION, OTHER INFORMATION AND SIGNATURE

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FORWARD-LOOKING STATEMENTS

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT NUMBER OF SHARES)

		September 30, 2009 (Unaudited)		June 30, 2009
ASSETS				
CURRENT ASSETS:				
Cash & cash equivalent	$	4,947	$	6,037
Short-term deposits		1,365		1,994
Trade accounts receivable, less allowance for doubtful accounts of $41 and $165		6,350		3,981
Other receivables		341		279
Inventories, less allowance for obsolete inventory of $766 and $718		952		1,184
Prepaid expenses and other current assets		303		167
Total current assets		14,258		13,642
INVESTMENT PROPERTY IN CHINA , Net		2,913		2,935
PROPERTY, PLANT AND EQUIPMENT, Net		11,164		6,607
GOODWILL		431		-
OTHER ASSETS		135		1,326
RESTRICTED TERM DEPOSITS		3,540		3,437
TOTAL ASSETS	$	32,441	$	27,947
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$	2,518	$	1,025
Accrued expenses		2,003		1,769
Income taxes payable		211		202
Current portion of bank loans payable		1,459		1,266
Current portion of capital leases		79		78
Total current liabilities:		6,270		4,340
BANK LOANS PAYABLE, net of current portion		2,503		237
CAPITAL LEASES, net of current portion		41		52
DEFERRED TAX LIABILITIES		498		526
OTHER NON-CURRENT LIABILITIES		582		10
TOTAL LIABILITIES	$	9,894	$	5,165
COMMITMENT AND CONTINGENCIES				
		-		-
EQUITY				
TRIO-TECH INTERNATIONAL’S SHAREHOLDERS' EQUITY:				
Common stock; no par value, 15,000,000 shares authorized; 3,227,430 shares issued and outstanding as at September 30, 2009, and June 30, 2009, respectively	$	10,365	$	10,365
Paid-in capital		1,495		1,446
Accumulated retained earnings		6,308		6,859
Accumulated other comprehensive loss-translation adjustments		1,388		1,194
		19,556		19,864

NONCONTROLLING INTEREST		2,991		2,918
TOTAL EQUITY	$	22,547	$	22,782
TOTAL LIABILITIES AND EQUITY	$	32,441	$	27,947

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
Revenues		
Products	$ 3,862	$ 3,132
Testing Services	2,671	3,098
Fabrication Services	504	--
Others	68	14
	7,105	6,244
Costs of Sales		
Cost of products sold	3,287	2,667
Cost of testing services rendered	2,084	2,261
Cost of fabrication services rendered	495	--
Others	35	--
	5,901	4,928
Gross Profit	1,204	1,316
Operating Expenses / (Gains) :		
General and administrative	1,591	2,015
Selling	132	123
Research and development	10	10
Gain on disposal of property, plant and equipment	(1)	(159)
Total operating expenses	1,732	1,989
Loss from Operations	(528)	(673)
Other Income (Expenses)		
Interest expense	(19)	(58)
Other income (expenses)	(3)	201
Total other income (expenses)	(22)	143
Loss Before Income Taxes	(550)	(530)
Income Tax Expenses / (Benefit)	(37)	98
Net Loss before noncontrolling interest	(513)	(628)
Noncontrolling interest	38	91
NET LOSS	$ (551)	$ (719)
Comprehensive Loss		
Net loss	$ (513)	$ (628)
Foreign currency translation adjustment	229	(656)
Comprehensive Loss	$ (284)	$ (1,284)
Comprehensive loss attributable to the noncontrolling interest	(73)	(105)
Comprehensive loss attributable to Trio-Tech International	$ (357)	$ (1,389)

Loss per share:						
Basic	$	(0.17	)	$	(0.22	)
Diluted	$	(0.17	)	$	(0.22	)
Weighted Average Shares Outstanding						
Basic		3,227			3,227	
Diluted		3,227			3,227	

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Three Months Ended September 30, 2009 (unaudited)	Three Months Ended September 30, 2008 (unaudited)
Cash Flow from Operating Activities		
Net loss	$ (551)	$ (719)
Adjustments to reconcile net loss to net cash flow provided by operating activities		
Depreciation and amortization	499	546
Bad debt expense	-	8
Inventory provision	48	195
Interest income on short-term deposits	(21)	(51)
Gain on sale of equipment	(1)	(159)
Stock compensation	49	238
Deferred tax provision	(28)	40
Noncontrolling interest	38	91
Changes in operating assets and liabilities, net of acquisition effects		
Accounts receivables	(2,108)	861
Other receivables	(62)	99
Other assets	(26)	78
Inventories	184	375
Prepaid expenses and other current assets	196	(57)
Accounts payable and accrued liabilities	851	(1,565)
Income tax payable	9	53
Other non-current liabilities	(99)	-
Net cash (used in) / provided by operating activities	(1,022)	33
Cash Flow from Investing Activities		
Proceeds from unrestricted and restricted term deposits	1,921	464
Investments in unrestricted and restricted term deposits	(1,385)	(1,034)
Additions to property, plant and equipment	(3,354)	(659)
Proceeds from sale of equipment	1	161
Acquisition of PT SAS Indonesia, net of cash acquired	225	-
Net cash used in investing activities	(2,592)	(1,068)
Cash Flow from Financing Activities		
Repayment of bank loans and capital leases	(273)	(551)
Proceeds from long-term bank loans and capital leases	2,733	-
Proceeds from exercising stock options	-	3
Net cash provided by financing activities	2,460	548
Effect of Changes in Exchange Rate	64	(353)
NET DECREASE IN CASH	(1,090)	(1,936)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,037	6,600
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,947	$ 4,664

Supplementary Information of Cash Flows

Cash paid during the period for:				
Interest	$	6	$	60
Income taxes	$	-	$	-

See notes to condensed consolidated financial statements.

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TRIO-TECH INTERNATIONAL AND SUBSIDIARIES

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

1.ORGANIZATION AND BASIS OF PRESENTATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All significant inter-company accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements are presented in U.S. dollars. The accompanying condensed consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the three months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report for the fiscal year ended June 30, 2009.

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New Accounting Policy:

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

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

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

2. ACQUISITION OF PT SHI INDONESIA, BATAM, INDONESIA

On July 1, 2009, SHI International Pte., Ltd., a 55% owned subsdiary of the Company, consummated the acquisition of a 100% interest in PT SHI Indonesia, pursuant to the Share Purchase Agreement dated April 7, 2009. PT SHI Indonesia is an Indonesia–based enterprise providing fabrication of large and complex structures, such as FPSO (Floating, Production, Storage and Offloading) which is a converted or custom-built ship-shaped floater, employed to process oil and gas and for temporary storage of the oil prior to transshipment, and related services for the offshore oil and gas industries. The Company's objective for acquiring this business was to diversify its business, reduce the risk associated with sole industry focus, and enhance the Company's future growth opportunities. There were no operating activities in PT SHI Indonesia for the three months ended September 30, 2008. Beginning on July 1, 2009, the operating results of this subsidiary were included in the consolidated statements of the Company for the three months ended September 30, 2009. Fabrication services are included in the Company's new segment "fabrication services". This acquisition transaction was not considered significant to the Company.

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

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Total purchase price:		
Cash	$	10
Contingent note payable		103
	$	113

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

The contingent note payable of $103 recorded during the three months ended September 30, 2009 was related to agreements to pay additional amounts based on achievement of certain performance measures for up to two years ending after the acquisition date. The excess purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill will not be amortized, but will be evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. The goodwill is not tax deductible.

The unaudited financial information in the table below summarizes the combined results of the operations of the Company and the new Fabrication Services segment for the three months ended September 30, 2009 as if the acquisition had occurred on July 1, 2008. The results from operations for the three months ended September 30, 2009 included a business acquisition that was completed at the beginning of the first quarter of fiscal 2009.

The pro forma results are presented for information purposes only and are not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of the three months ended September 30, 2008. The unaudited pro forma combined the statement of operations for the three months ended September 30, 2008 and historical results for the new Fabrication & Services segment for the period preceding the acquisition on July 1, 2008.

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The following amounts are in thousands.

	Historical Information of the Company (1) (Unaudited)	Historical Information of the Acquired Entity (2) (Unaudited)	Pro Forma
Net sales	$ 6,244	$ -	$ 6,244
Net loss	$ (719)	$ -	$ (719)
Basic loss per share	$ 0.22		$ 0.22
Diluted loss per share	$ 0.22		$ 0.22
Basic weighted average common shares outstanding	3,227		3,227
Diluted weighted average common shares outstanding	3,227		3,227

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

1. The historical operating results of the Company were based on the Company's unaudited financial statement in its Form 10-Q filed with the SEC for the three-month period ended September 30, 2008.

2. There were no operating activities for PT SHI Indonesia for the period ended September 30, 2008.

3.NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

Effective June 30, 2009, the Company adopted a new accounting standard included in ASC 855 Subsequent Events that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This new accounting standard provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The implementation of this standard did not have a material impact on our condensed consolidated financial statements. The Company evaluated subsequent events through November 17, 2009, the date the accompanying financial statements were issued.

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

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

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

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

4. INVENTORIES

Inventories consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Raw materials	$ 1,054	$ 1,084
Work in progress	500	645
Finished goods	164	173
Less: provision for obsolete inventory	(766)	(718)
	$ 952	$ 1,184

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5. STOCK OPTIONS

As of September 30, 2009, there were no outstanding options to purchase Common Stock which had been granted pursuant to the 1998 Employee Option Plan, which plan was terminated on December 2, 2005 by the Company's Board of Directors.

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

Assumptions

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

	Three Months Ended September 30, 2009	Year Ended June 30, 2009
Expected volatility	107.18-145.18%	107.18-145.18%
Risk-free interest rate	1.27 – 2.48%	1.27 – 2.48%
Expected life (years)	2.00 - 3.25	2.00 - 3.25

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

2007 Employee Stock Option Plan

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

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The Company did not grant any options pursuant to the 2007 Employee Plan during the first quarter of fiscal 2010. The Company recognized stock-based compensation expenses of $49 in the three months ended September 30, 2009 under the 2007 Employee Plan. The balance of unamortized stock-based compensation of $197 based on fair value on the grant date related to options granted under the 2007 Employee Plan is expected to be recognized over a period of three years.

During the first quarter of fiscal 2009, pursuant to the 2007 Employee Plan, 50,000 shares of stock options were granted to certain officers and employees with an exercise price equal to the fair market value of the Company's Common Stock (as defined under the 2007 Employee Plan in conformity with Regulation 409A of the Internal Revenue Code of 1986, as amended) at the date of grant. These options vest over the period as follows: 25% vesting on the grant date, and the balance vesting in equal installments on the next three succeeding anniversaries of the grant date. The fair market value of 50,000 shares of the Company's Common Stock issuable upon exercise of stock options granted was approximately $136 based on the fair value of $2.71 per share determined by using the Black Scholes option pricing model.

The Company recognized stock-based compensation expense of approximately $75 in the first quarter of fiscal 2009 under the 2007 Employee Plan. Unamortized stock-based compensation of $172 based on fair value on the grant date related to options granted under the 2007 Employee Plan was expected to be recognized over a period of three years.

As of September 30, 2009, there were vested employee stock options covering a total of 92,250 shares of Common Stock. The weighted-average exercise price was $4.18 and the weighted average remaining contractual term was 4.03 years. The total intrinsic value of vested employee stock options during the three months ended September 30, 2009 was $46. A summary of option activities under the 2007 Employee Plan during the three months ended September 30, 2009 is presented as follows:

	Options	Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2009	283,000	$ 3.32	4.47	--
Granted	-			