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TAITRON COMPONENTS INC
Form 10-Q
August 14, 2008

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 June 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number: 0-25844

TAITRON COMPONENTS INCORPORATED

(Exact name of registrant as specified in its charter)

California

95-4249240

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

28040 West Harrison Parkway, Valencia, California 91355-4162

(Address of principal executive offices)

(Zip Code)

(661) 257-6060

(Registrant's telephone number)

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, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

| Class | Outstanding on July 31, 2008 |
|--|------------------------------|
| Class A common stock, \$.001 par value | 4,777,144 |
| Class B common stock, \$.001 par value | 762,612 |

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Balance Sheets

| | June 30, 2008 |
|---|------------------|
| Assets | (Unaudited) |
| Current assets: | |
| Cash and cash equivalents | \$ 1,490,000 |
| Trade accounts receivable, net | 1,413,000 |
| Inventory, net | 14,113,000 |
| Prepaid expenses and other current assets | 167,000 |
| Total current assets | 17,183,000 |
| Property and equipment, net | 5,409,000 |
| Other assets (Note 2) | 728,000 |

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| | | | |
|---|--------------------------------------|--------------|-------|
| Total assets | | \$23,320,000 | ===== |
| | Liabilities and Shareholders' Equity | | |
| Current liabilities: | | | |
| Trade accounts payable | | \$ 787,000 | |
| Accrued liabilities and other | | 293,000 | |
| Current portion of long-term debt | | 89,000 | |
| | | ----- | |
| Total current liabilities | | 1,169,000 | |
| Long-term debt, less current portion (Note 3) | | 876,000 | ----- |
| | | | |
| Total liabilities | | 2,045,000 | ----- |
| Commitments and contingencies (Note 6) | | | |
| Minority interest in subsidiary | | 251,000 | |
| Shareholders' equity: | | | |
| Preferred stock, \$.001 par value. Authorized 5,000,000 shares. None issued or outstanding. | | | |
| Class A common stock, \$.001 par value. Authorized 20,000,000 shares; issued and outstanding 4,777,144 and 4,775,144 shares at June 30, 2008 and December 31, 2007, respectively. | | 5,000 | |
| Class B common stock, \$.001 par value. Authorized, issued and outstanding 762,612 shares. | | 1,000 | |
| Additional paid-in capital | | 10,557,000 | |
| Accumulated other comprehensive income, net of tax | | 12,000 | |
| Retained earnings | | 10,449,000 | ----- |
| | | | |
| Total shareholders' equity | | 21,024,000 | ----- |
| | | | |
| Total liabilities and shareholders' equity | | \$23,320,000 | ===== |

See accompanying notes to condensed consolidated financial statements.

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TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Statements of Operations

| | Three months ended June 30, 2008 | 2007 | Six months ended Ju 2008 | 2007 |
|--------------------|-------------------------------------|----------------------|-----------------------------|----------------------|
| | ----- (Unaudited) | ----- (Unaudited) | ----- (Unaudited) | ----- (Unaudited) |
| Net sales | \$ 2,029,000 | \$ 1,623,000 | \$ 4,034,000 | \$ 3,4 |
| Cost of goods sold | 1,476,000 | 1,171,000 | 2,871,000 | 2,5 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|--------------|--------------|--------------|-------|
| Gross profit | 553,000 | 452,000 | 1,163,000 | 9 |
| Selling, general and administrative expenses | 698,000 | 703,000 | 1,385,000 | 1,3 |
| Operating loss | (145,000) | (251,000) | (222,000) | (4 |
| Interest income, net | -- | 13,000 | 4,000 | |
| Other income (loss), net | 44,000 | 4,000 | 90,000 | (|
| Loss before income taxes | (101,000) | (234,000) | (128,000) | (4 |
| Income tax provision | (1,000) | (1,000) | (1,000) | |
| Net loss | \$ (102,000) | \$ (235,000) | \$ (129,000) | \$ (4 |
| Other Comprehensive Loss: | | | | |
| Foreign currency translation adjustment | (7,000) | -- | (32,000) | |
| Comprehensive loss | \$ (109,000) | \$ (235,000) | \$ (161,000) | \$ (4 |
| Net loss per share: Basic & Diluted | \$ (0.02) | \$ (0.04) | \$ (0.02) | \$ |
| Weighted average common shares outstanding: | | | | |
| Basic & Diluted | 5,539,756 | 5,536,089 | 5,539,756 | 5,5 |

See accompanying notes to condensed consolidated financial statements.

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TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Statements of Cash Flows

| | Six months ended June 30, | |
|---|---------------------------|--------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities: | | |
| Net loss | \$ (129,000) | \$ (425,000) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 128,000 | 116,000 |
| Provision for sales returns and doubtful accounts | 63,000 | 142,000 |
| Stock based compensation | 11,000 | 14,000 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (26,000) | (239,000) |
| Inventory | 709,000 | 382,000 |
| Prepaid expenses and other current assets | 7,000 | (128,000) |
| Trade accounts payable | (531,000) | (453,000) |
| Accrued liabilities | (1,000) | 51,000 |
| Minority interest in subsidiary | 20,000 | -- |
| Total adjustments | 380,000 | (115,000) |

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| | | |
|--|--------------|--------------|
| Net cash provided by (used in) operating activities | 251,000 | (540,000) |
| ----- | | |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (5,000) | (2,000) |
| Investments in marketable securities | -- | (305,000) |
| Investments in land purchase contracts | | (147,000) |
| Other assets | (15,000) | (10,000) |
| ----- | | |
| Net cash used in investing activities | (20,000) | (464,000) |
| ----- | | |
| Cash flows from financing activities: | | |
| Borrowings on notes payable | 500,000 | -- |
| Payments on notes payable | (45,000) | (44,000) |
| Dividend payments | (277,000) | (552,000) |
| Exercise of Class A common stock options | 2,000 | 65,000 |
| ----- | | |
| Net cash provided by (used in) financing activities | 180,000 | (531,000) |
| ----- | | |
| Impact of exchange rates on cash | (32,000) | 4,000 |
| ----- | | |
| Net increase (decrease) in cash and cash equivalents | 379,000 | (1,531,000) |
| Cash and cash equivalents, beginning of year | 1,111,000 | 2,727,000 |
| ----- | | |
| Cash and cash equivalents, end of year | \$ 1,490,000 | \$ 1,196,000 |
| ===== | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 15,000 | \$ 20,000 |
| ===== | | |
| Cash paid for income taxes, net | \$ 1,000 | \$ 1,000 |
| ===== | | |

See accompanying notes to condensed consolidated financial statements.

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TAITRON COMPONENTS INCORPORATED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008

1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

In 1989, we were formed and incorporated in California. We maintain a majority-owned subsidiary in Mexico (since 1998) and three divisions in each of Taiwan (since 1998), Brazil (since 1998) and China (since 2005). Our Mexico and Brazil locations are for regional distribution, sales and marketing purposes and our Taiwan and China locations are for supporting inventory sourcing, purchases and coordinating the manufacture of our products. Our China location also serves as the engineering center responsible for making component datasheets and test specifications, arranging pre-production and mass production at our outsourced manufacturers, preparing samples, monitoring quality of shipments, performing failure analysis reports, and designing circuits with partners for our projects.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments, consisting of normal recurring accruals and adjustments, which are necessary for a fair statement of

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the financial position, results of operations and cash flows for the periods presented. Such financial statements do not include all the information or notes necessary for a complete presentation, therefore, they should be read in conjunction with the consolidated financial statements, including the notes thereto, contained in our Annual Report on Form 10-KSB for the year ended December 31, 2007. The results of operations for the interim periods are not necessarily indicative of results that may be achieved for the entire year.

Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and the accounts of our majority-owned subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

Revenue is typically recognized upon shipment of merchandise and sales are recorded net of discounts, rebates, and returns. Reserves for sales allowances and customer returns are established based upon historical experience and management's estimates as shipments are made. Sales returns for the quarters ended June 30, 2008 and 2007 were \$24,000 and \$119,000, respectively, and for the six months ended June 30, 2008 and 2007 aggregated \$54,000 and \$136,000, respectively.

Allowance for Sales Returns and Doubtful Accounts

On a case-by-case basis, we accept returns of products from our customers, without restocking charges, when they can demonstrate an acceptable cause for the return. Requests by a distributor to return products purchased for its own inventory generally are not included under this policy. We will, on a case-by-case basis, accept returns of products upon payment of a restocking fee, which is generally 15% to 30% of the net sales price. We will not accept returns of any products that were special-ordered by a customer or that otherwise are not generally included in inventory. The allowance for sales returns and doubtful accounts at June 30, 2008 aggregated \$89,000.

Inventory

Inventory, consisting principally of products held for resale, is recorded at the lower of cost (determined using the first in-first out method) or estimated market value. Inventory is presented net of valuation allowances of \$2,807,000 at June 30, 2008.

Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We adopted the provisions of FIN 48 as of January 1, 2007, and have analyzed filing

positions in each of the federal and state jurisdictions where required to file income tax returns, as well as all open tax years in these jurisdictions. The following tax years that remain subject to examination by major tax jurisdictions are as follows: Federal - 2005, 2006 and 2007; and California (State) - 2004, 2005, 2006 and 2007. However, we have certain tax attribute

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carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

Net Loss Per Share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Common equivalent shares, consisting primarily of stock options, of approximately 369,000 and 344,000 for the three months ended June 30, 2008 and 2007, respectively, and approximately 370,000 and 373,000 for the six months ended June 30, 2008 and 2007, respectively, are excluded from the computation of diluted loss per share as their effect is anti-dilutive.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. These estimates have a significant impact on our valuation and reserve accounts relating to the allowance for sales returns, doubtful accounts, inventory reserves and deferred income taxes. Actual results could differ from these estimates.

Reclassification

Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

Stock-Based Compensation

Accounting for stock options issued to employees follows the provisions of SFAS No. 123R, "Share-Based Payment". This statement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Outstanding options vest in three equal annual installments beginning one year from the date of grant and are subject to termination provisions as defined in the Plan. We use the Black-Scholes option pricing model to measure the fair value of options granted to employees. The fair value of options using the Black-Scholes option-pricing model with the following weighted average assumptions was as follows for 2008: dividend yield of 5%; expected volatility of 49%; a risk free interest rate of approximately 3.5% and an expected holding period of five years.

Stock option activity during the three months ended June 30, 2008 is as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Years Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|---------------------|--|---|---------------------------------|
| Outstanding at December 31, 2007 | 414,167 | \$1.84 | 4.41 | \$106,000 |
| Granted | 51,000 | 1.63 | 8.01 | -- |
| Exercised | (2,000) | 1.00 | -- | -- |
| Forfeited | (1,167) | 2.45 | -- | -- |
| | ----- | | | |
| Outstanding at June 30, 2008 | 462,000 | \$1.82 | 3.55 | \$ 1,000 |
| | ===== | | | |

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| | | | | |
|------------------------------|---------|--------|------|----------|
| Exercisable at June 30, 2008 | 368,668 | \$1.76 | 3.28 | \$ 1,000 |
| | ===== | | | |

At June 30, 2008, the range of individual outstanding weighted average exercise prices was \$1.74 to \$2.45.

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Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"). This statement replaces FASB Statement No. 141, Business Combinations. This statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS 141R to have a significant impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"), which is an amendment of Accounting Research Bulletin ("ARB") No. 51. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently assessing the impact that SFAS 160 will have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment to FASB Statement No. 133 ("SFAS 161"), which changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires entities to provide enhanced disclosures on how and why the entity uses derivative instruments, how derivative instruments and related hedging items are accounted for under SFAS No. 133, and how derivative instruments and related hedging items affect an entity's financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of SFAS 161 to have a significant impact on our results of operations or financial position.

2 - OTHER ASSETS

| | 6/30/2008 |
|--------------------------------------|-----------|
| | ----- |
| Investment in securitites | \$406,000 |
| Investment in land purchase contract | 147,000 |
| Investment in joint venture | 147,000 |
| Other | 28,000 |

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| | |
|--------------|-----------------------------|
| Other Assets | ----- \$728,000 ===== |
|--------------|-----------------------------|

Our \$406,000 investment in securities as of June 30, 2008 relates to approximately 4.5% of the outstanding shares of Zowie Technology Corporation, a manufacturer of discrete semiconductors and also a supplier of our electronic component products. This investment is accounted for under the cost method basis of accounting.

Our \$147,000 investment in land purchase contract as of June 30, 2008, represents a 49% share of refundable deposit on approximately 3.3 acres (U.S. equivalent) of land located in Yangzhou, China. The total cost of our 49% share of this land expected to be reduced to approximately \$54,000 within one year.

Our \$147,000 investment in joint venture as of June 30, 2008, relates to our 49% ownership of Taiteam (Yangzhou) Technology Corporation Limited, a joint venture with its 51% owner, Full Harvest Development Limited. This joint venture is not considered to be a "Variable Interest Entity", as defined under FAS Interpretation No. 46R, and as such, is accounted for under the equity method basis of accounting. This joint venture is not operational and as such, there has been no activity in this joint venture during 2008.

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3 - NOTES PAYABLE

| | 6/30/2008 ----- |
|--|------------------------------|
| Bank loan collateralized by real property, payable in fixed monthly principal installments of \$7,381, plus interest at the rate of one year LIBOR + 1.8% per annum, due September 20, 2013. | \$ 465,000 |
| Promissory note collateralized by real property, payable in monthly interest only installments, at the rate of Prime + 0.25% per annum, due June 3, 2010. | \$ 500,000 |
| Less current portion | (89,000) |
| Long-term debt, less current portion | ----- \$ 876,000 ===== |

On September 21, 2006, we borrowed \$620,000 in connection with our acquisition of approximately 4,500 square feet of office space (consisting of 2 separate units on the same floor) in Shanghai, China with a total purchase price of \$1,240,000. The investment will be used as rental property for lease to others and for our project design and engineering center.

On April 21, 2008 we secured \$3,000,000 credit facility from K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer, maturing on April 21, 2011. On June 3, 2008, we borrowed \$500,000 in connection with this credit facility.

4 - CASH DIVIDEND

On March 28, 2008 we declared an annual cash dividend of \$0.05 per share of Class A Common Stock and Class B Common Stock, paid on April 22, 2008 in the amount of \$277,000, to shareholders of record at the close of business on April 15, 2008.

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5 - RELATED PARTY TRANSACTIONS

During the period ended June 30, 2008, we purchased electronic component products of approximately \$69,000 for the quarter and \$357,000 for the six months, from Princeton Technology Corporation ("PTC"), a company controlled by Mr. Chiang, one of our directors. All of these purchases were for products we carried in inventory and we consider these purchases to be in the normal course of business and negotiated on an arm's length basis. We have entered into a distributor agreement with PTC, and accordingly, we expect to continue purchasing from PTC in the future.

During the period ended June 30, 2008, we made payments of \$6,000 for the quarter and \$12,000 for the six months, to K.S. Best International Co. Ltd., a company controlled by our Chief Executive Officer. These payments were for professional fees related to the operational management of our Taiwan office.

During the period ended June 30, 2008, we borrowed \$500,000 from K.S. Best International Co. Ltd., a company controlled by our Chief Executive Officer, see Note 3.

6 - COMMITMENTS AND CONTINGENCIES

Inventory Purchasing

Outstanding commitments to purchase inventory from suppliers aggregated \$1,100,000 as of June 30, 2008.

Regulation

On July 1, 2006, the European Union ("EU") directive relating to the Restriction of Certain Hazardous Substance ("RoHS") restricted the distribution of products within the EU containing certain substances, including lead. Further, many of our suppliers are not yet supplying RoHS compliant products. The legislation is effective and some of our inventory has become obsolete. Management has estimated the impact of the legislation and has written down or reserved for related inventories based on amounts expected to be realized given all available current information. Actual amounts realized from the ultimate disposition of related inventories could be different from those estimated.

Legal and Regulatory Proceedings

None.

7 - SUBSEQUENT EVENTS

On August 13, 2008, NASDAQ informed us that our Class A common stock has not maintained a minimum bid price of \$1.00 per share required for continued inclusion by Marketplace Rule 4310(c)(8)(D) (the "Rule"). Therefore, we have been provided 180 calendar days or until February 9, 2009, to regain compliance under the Rule. If, at anytime before February 9, 2009, the bid price of our Class A common closes at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ expects to provide written notification that we comply with the Rule. However, if compliance with this Rule cannot be demonstrated by February 9, 2009, NASDAQ expects to determine whether we meet The Nasdaq Capital Market initial listing criteria as set forth in Marketplace Rule 4310(c), except for the bid price requirement. If determined we still meet the initial listing criteria, NASDAQ expects to grant an additional 180 calendar day compliance period or until August 8, 2009. If we are not eligible for an additional

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compliance period, NASDAQ expects to provide written notification that our securities will be delisted. At that time, we may appeal NASDAQ's determination to delist our securities to a Listing Qualifications Panel.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the related notes, appearing in Item 1 of this report as well as our most recent annual report on Form 10-KSB for the year ended December 31, 2007. Also, several of the matters discussed in this document contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Forward-looking statements usually are denoted by words or phrases such as "believes," "expects," "projects," "estimates," "anticipates," "will likely result" or similar expressions. We wish to caution readers that all forward-looking statements are necessarily speculative and not to place undue reliance on forward-looking statements, which speak only as of the date made, and to advise readers that actual results could vary due to a variety of risks and uncertainties. Factors associated with the forward looking statements that could cause the forward looking statements to be inaccurate and could otherwise impact our future results are set forth in detail in our most recent annual report on Form 10-KSB. In addition to the other information contained in this document, readers should carefully consider the information contained in our most recent annual report on Form 10-KSB under the heading "Cautionary Statements and Risk Factors."

References to "Taitron," "the Company," "we," "our" and "us" refer to Taitron Components Incorporated and its majority-owned subsidiary, unless the context otherwise specifically defines.

Critical Accounting Policies and Estimates

Use Of Estimates - Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. These estimates have a significant impact on our valuation and reserve accounts relating to the allowance for sales returns, doubtful accounts, inventory reserves and deferred income taxes. Actual results could differ from these estimates.

Revenue Recognition - Revenue is recognized upon shipment of the merchandise, which is when legal transfer of title occurs. Reserves for sales allowances and customer returns are established based upon historical experience and our estimates of future returns. Sales returns for the quarters ended June 30, 2008 and 2007 were \$24,000 and \$119,000, respectively and the six months ended June 30, 2008 and 2007 aggregated \$54,000 and \$136,000, respectively. The allowance for sales returns and doubtful accounts at June 30, 2008 aggregated \$89,000.

Inventory - Inventory, consisting principally of products held for resale, is recorded at the lower of cost (determined using the first in-first out method) or estimated market value. We had inventory balances in the amount of \$14,113,000 at June 30, 2008, which is presented net of valuation allowances of \$2,807,000. We evaluate inventories to identify excess, high-cost, slow-moving or other factors rendering inventories as unmarketable at normal profit margins. Due to the large number of transactions and the complexity of managing and maintaining a large inventory of product offerings, estimates are made regarding adjustments to the cost of inventories. Based on our assumptions about future demand and market conditions, inventories are carried at the lower of cost or estimated market value. If our assumptions about future demand change, or market

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conditions are less favorable than those projected, additional write-downs of inventories may be required. In any case, actual amounts could be different from those estimated.

Impact of Governmental Regulation - Our worldwide operations are subject to local laws and regulations. As such, of particular interest is the European Union ("EU") directive relating to the Restriction of Certain Hazardous Substance

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("RoHS"). On July 1, 2006, this directive restricted the distribution of products within the EU containing certain substances, including lead. At the present time, much of our inventory contains substances prohibited by the RoHS directive. Further, many of our suppliers are not yet supplying RoHS compliant products. The legislation is effective and some of our inventory has become obsolete. Management has estimated the impact of the legislation and has written down or reserved for related inventories based on amounts expected to be realized given all available current information. Actual amounts realized from the ultimate disposition of related inventories could be different from those estimated.

Deferred Taxes - In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN48), which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. A tax position that meet the "more-likely-than-not" criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. FIN48 applies to all tax positions accounted for under SFAS No. 109, Accounting for Income Taxes. FIN48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN48 as of January 1, 2007. Based on our preliminary analysis, we believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position including our effective tax rate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 and we did not record a cumulative effect adjustment related to the adoption of FIN 48. In addition, we have not recorded any accrued interest nor penalties related to income tax. It is our policy to classify interest and penalties related to income tax as income taxes in our financial statements. The following tax years that remain subject to examination by major tax jurisdictions are as follows: Federal - 2005, 2006 and 2007; and California (State) - 2004, 2005, 2006 and 2007.

Overview

We distribute discrete semiconductors, optoelectronic devices and passive components to other electronic distributors, CEMs and OEMs, who incorporate them in their products and supply ODM products for our customer's multi-year turn-key projects.

We continue to be impacted by the severe decline in demand for discrete semiconductors from the U.S. market, which began in late 2000. As a result, we have experienced declining sales in such components since early 2001. In response to this declining demand, we placed emphasis on increasing our sales to existing customers through further expansion of the number of different types of discrete components and other integrated circuits in our inventory and by attracting additional contract electronic manufacturers (CEMs), original equipment manufacturers (OEMs) and electronics distributor customers. In addition, over the last four years we have developed our ODM service capabilities and added products developed through partnership agreements with

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offshore solution providers (OEMs and CEMs). We also offer commodity Integrated Circuits (ICs) as an extension of current discrete semiconductor lines, since 2007.

Our core strategy of electronic components fulfillment, however, consists of carrying a substantial quantity and variety of products in inventory to meet the rapid delivery requirements of our customers. This strategy allows us to fill customer orders immediately from stock on hand. Although we believe better market conditions may return, we are focused on lowering our inventory balances and increasing our cash holdings. Our long-term strategy is to rely not only on our core strategy of component fulfillment service, but also the value-added engineering and turn-key services.

In accordance with Generally Accepted Accounting Principles, we have classified inventory as a current asset in our June 30, 2008, consolidated financial statements representing approximately 82% of current assets and 61% of total assets. However, if all or a substantial portion of the inventory was required to be immediately liquidated, the inventory would not be as readily marketable or liquid as other items included or classified as a current asset, such as cash. We cannot assure you that demand in the discrete semiconductor market will increase and that market conditions will improve. Therefore, it is possible that further declines in our carrying values of inventory may result.

Since the beginning of 2001, our gross profit margins in general have been stable. Our gross profit margins are subject to a number of factors, including product demand, strength of the U.S. dollar, our ability to purchase inventory at favorable prices and our sales product mix.

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Results of Operations

Second quarter of 2008 versus second quarter of 2007.

Net sales in the second quarter of 2008 totaled \$2,029,000 versus \$1,623,000 in the comparable period for 2007, an increase of \$406,000 or 25% over the same period last year. The overall increase came from our IC sales increasing by \$210,000 and our ODM product sales increasing by \$99,000, compared with the prior period.

Gross profit for the second quarter of 2008 was \$553,000 versus \$452,000 in the comparable period for 2007, and gross margin percentage of net sales was 27.3% in the second quarter of 2008 versus 27.9 % in the comparable period for 2007.

Selling, general and administrative ("SG&A") expenses in the second quarter of 2008 totaled \$698,000 versus \$703,000 in the comparable period for 2007. The decrease was primarily attributed to decreases to salaries and benefits by \$12,000, supplies by \$7,000 and rents by \$7,000, partially offset by increases to our travel by \$9,000 and professional fees by \$11,000. Also, effective January 1, 2006, we adopted SFAS 123(R) and such had a \$6,000 financial impact to our SG&A for the second quarter of 2008, as compared to \$7,000 financial impact for the same period last year.

Interest income, net of interest expense, was \$0 for the second quarter of 2008 versus \$13,000 in the comparable period for 2007. The net interest income for the second quarter of 2008 was completely offset by interest expense due on our borrowings, as compared to investment income from cash on hand in the prior period.

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Other income, net of other losses, in the three months ended June 30, 2008 was \$44,000 versus \$4,000 in the comparable period for 2007. The increase came primarily from rental income of \$23,000 in the second quarter of 2008, compared to \$0 in the comparable period for 2007.

Income tax provision was \$1,000 for the second quarter of 2008 and \$1,000 in the comparable period for 2007, as we do not expect significant taxable income for fiscal year 2008.

Net loss was \$102,000 for the second quarter of 2008 versus \$235,000 in the comparable period for 2007, a decrease of \$133,000 resulting from the reasons discussed above.

Six Months Ended June 30, 2008 versus Six Months Ended June 30, 2007.

Net sales in the six months ended June 30, 2008 was \$4,034,000 versus \$3,478,000 in the comparable period for 2007, an increase of \$556,000 or 16% over the same period last year. The overall increase came from our IC sales increasing by \$179,000 and our ODM product sales increasing by \$309,000, compared with the prior period.

Gross profit for the six months ended June 30, 2008 was \$1,163,000 versus \$952,000 in the comparable period for 2007, and gross margin percentage of net sales was approximately 28.8% for the six months ended June 30, 2008 and 27.4% for 2007, respectively.

Selling, general and administrative ("SG&A") expenses in the six months ended June 30, 2008 totaled \$1,385,000 versus \$1,394,000 in the comparable period for 2007. The decrease was primarily attributed to decreases to salaries and benefits by \$15,000, supplies by \$7,000 and rents by \$13,000, partially offset by increases to our travel by \$7,000 and professional fees by \$5,000. Also, effective January 1, 2006, we adopted SFAS 123(R) and such had a \$11,000 financial impact to our SG&A for the six months ended June 30, 2008 versus \$14,000 in the comparable period for 2007.

Interest income, net of interest expense, was \$4,000 for the six months ended June 30, 2008 versus \$34,000 in the comparable period for 2007. The net interest income for the six months ended June 30, 2008 was offset by interest expense due on our borrowings, as compared to investment income from cash on hand in the prior period.

Other income, net of other losses, in the six months ended June 30, 2008 was \$90,000 versus other losses of \$14,000 in the comparable period for 2007. The increase came primarily from rental income of \$41,000 in the six months ended June 30, 2008, compared to \$0 in the comparable period for 2007.

Income tax provision was \$1,000 for the six months ended June 30, 2008 versus \$3,000 in the comparable period for 2007.

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Net loss was \$129,000 for the six months ended June 30, 2008 versus \$425,000 in the comparable period for 2007, a decrease of \$296,000 resulting from the reasons discussed above.

Liquidity and Capital Resources

We have satisfied our liquidity requirements principally through cash

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generated from operations and short-term commercial loans. A summary of our cash flows resulting from our operating, investing and financing activities for the three months ended June 30, 2008 are as follows:

| | Six months ended June 30, | |
|----------------------------|---------------------------|-------------|
| | 2008 | 2007 |
| | (Unaudited) | (Unaudited) |
| Operating activities | 251,000 | (540,000) |
| Investing activities | (20,000) | (464,000) |
| Financing activities | 180,000 | (531,000) |

Cash flows provided by (used in) operating activities were \$251,000 and \$(540,000) for the six months ended June 30, 2008 and 2007, respectively. The increase of \$791,000 in cash flows provided by operations compared with the prior period resulted from changes in operating assets and liabilities, primarily reduction of inventory.

Cash flows used in investing activities were \$20,000 and \$464,000 for the six months ended June 30, 2008 and 2007, respectively. The 2007 outflows primarily came from our \$305,000 marketable securities investment in the preferred stock of Zowie Technology Corporation. Also, in 2007 we invested \$147,000 in land purchase contract for deposit on land in Yangzhou, China.

Cash flows provided by (used in) in financing activities were \$180,000 and \$(531,000) for the six months ended June 30, 2008 and 2007, respectively. The 2008 inflows came primarily from our \$500,000 borrowing under promissory note from a related party (see Note 3), offset by our cash dividend payment of \$277,000.

Inventory is included in current assets; however, it will take over one year for the inventory to turn. Hence, inventory would not be as readily marketable or liquid as other items included in current assets, such as cash.

We believe that funds generated from, or used in operations, in addition to existing cash balances are likely to be sufficient to finance our working capital and capital expenditure requirements for the foreseeable future. If these funds are not sufficient, we may secure new sources of short-term commercial loans, asset-based lending on accounts receivables or issue debt or equity securities.

Off-Balance Sheet Arrangements

As of June 30, 2008, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk. - None.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) required by Exchange Act Rules 13a-15(b) or 15d-15(b), as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of that date to provide reasonable assurance that information we are required to disclose in reports

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that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

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Evaluation of Changes in Internal Control over Financial Reporting

Pursuant to Rule 13a-15(d) or Rule 15d-15(d) of the Exchange Act, our management, including our Chief Executive and Chief Financial Officer, is responsible for evaluating any change in our internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act), that occurred during each of our fiscal quarters that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Under the supervision and with the participation of our management, including our Chief Executive and Chief Financial Officer, we have determined that, during the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings. - None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. - None

Item 3. Defaults Upon Senior Securities. - None

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

On May 29, 2008, we held our Annual Meeting of Shareholders where a majority of our shareholders approved the proposal to re-elect all existing five members of our Board of Directors for a one-year term expiring at the 2009 Annual Meeting. No other business matters were presented at this Annual Meeting.

Item 5. Other Information. - None

Item 6. Exhibits.

| Exhibit Number | Description of Document |
|-------------------|--|
| 31.1* | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32* | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 USC. Section 1350). |

* Filed herewith.

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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.

TAITRON COMPONENTS INCORPORATED

Date: August 14, 2008

/s/ Stewart Wang

Stewart Wang
Chief Executive Officer and President
(Principal Executive Officer)

/s/ David Vanderhorst

David Vanderhorst
Chief Financial Officer
(Principal Financial Officer)