

TAITRON COMPONENTS INC
Form 10-Q
November 14, 2012

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 September 30, 2012

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
(State or other jurisdiction of incorporation or organization)

95-4249240
(I.R.S. Employer Identification No.)

28040 West Harrison Parkway, Valencia,
California
(Address of principal executive offices)

91355-4162
(Zip Code)

(661) 257-6060
(Registrant's telephone number, including area code)

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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Edgar Filing: TAITRON COMPONENTS INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 November 1, 2012
Class A common stock, \$0.001 par value	4,777,144
Class B common stock, \$0.001 par value	762,612

Table of Contents

TAITRON COMPONENTS INCORPORATED
 FORM 10-Q
 September 30, 2012
 TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1.	1
	1
	2
	3
	4
Item 2.	7
Item 3.	9
Item 4.	9
PART II - OTHER INFORMATION	
Item 1.	10
Item 2.	10
Item 3.	10
Item 4.	10
Item 5.	10
Item 6.	10
	11

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Balance Sheets

Assets	September 30, 2012 (Unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	\$2,078,000	\$1,905,000
Restricted cash (Note 4)	100,000	200,000
Trade accounts receivable, net of allowance for doubtful accounts of \$87,000 and \$92,000, respectively	788,000	501,000
Inventory, net of reserve for obsolescence of \$4,903,000, and \$4,233,000, respectively	11,753,000	12,801,000
Prepaid expenses and other current assets	58,000	55,000
Total current assets	14,777,000	15,462,000
Property and equipment, net	4,677,000	4,822,000
Other assets (Note 5)	1,226,000	874,000
Total assets	\$20,680,000	\$21,158,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	\$1,017,000	\$793,000
Accrued liabilities	365,000	332,000
Current portion of long-term debt from related party (Note 6)	1,500,000	-
Total current liabilities	2,882,000	1,125,000
Long-term debt from related party (Note 6)	-	1,500,000
Total liabilities	2,882,000	2,625,000
Commitments and contingencies (Notes 6, 8 and 9)		
Shareholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; None issued or outstanding	-	-
Class A common stock, \$0.001 par value. Authorized 20,000,000 shares; 4,777,144 shares issued and outstanding	5,000	5,000
Class B common stock, \$0.001 par value. Authorized, issued and outstanding 762,612 shares	1,000	1,000
Additional paid-in capital	10,629,000	10,616,000
Accumulated other comprehensive income	100,000	98,000
Retained earnings	6,906,000	7,631,000
Noncontrolling interest in subsidiary	157,000	182,000
Total shareholders' equity	17,798,000	18,533,000
Total liabilities and shareholders' equity	\$20,680,000	\$21,158,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Statements of Operations and Comprehensive Loss

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$1,945,000	\$1,682,000	\$5,045,000	\$5,199,000
Cost of goods sold	1,518,000	1,206,000	3,992,000	3,542,000
Gross profit	427,000	476,000	1,053,000	1,657,000
Selling, general and administrative expenses	609,000	649,000	1,849,000	2,154,000
Operating loss	(182,000)	(173,000)	(796,000)	(497,000)
Interest expense, net	(8,000)	(13,000)	(25,000)	(51,000)
Other income, net	27,000	26,000	73,000	70,000
Loss before income taxes	(163,000)	(160,000)	(748,000)	(478,000)
Provision for income taxes	(1,000)	-	(2,000)	(2,000)
Net loss	(164,000)	(160,000)	(750,000)	(480,000)
Net loss attributable to noncontrolling interests	9,000	3,000	25,000	15,000
Net loss attributable to the Company	\$(155,000)	\$(157,000)	\$(725,000)	\$(465,000)
Loss per share: basic and diluted	\$(0.03)	\$(0.03)	\$(0.14)	\$(0.09)
Weighted-average common shares outstanding: basic and diluted	5,539,756	5,539,756	5,539,756	5,539,756
Net loss	\$(164,000)	\$(160,000)	\$(750,000)	\$(480,000)
Other comprehensive income :				
Foreign currency translation adjustment	(2,000)	1,000	2,000	14,000
Comprehensive loss	(166,000)	(159,000)	(748,000)	(466,000)
Comprehensive loss attributable to noncontrolling interests	9,000	4,000	25,000	15,000
Comprehensive loss attributable to the Company	\$(157,000)	\$(155,000)	\$(723,000)	\$(451,000)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TAITRON COMPONENTS INCORPORATED

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows provided by (used for) operating activities:		
Net loss	\$(750,000)	\$(480,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	161,000	136,000
Provision for sales returns and doubtful accounts	19,000	16,000
Stock based compensation	13,000	7,000
Changes in assets and liabilities:		
Restricted cash	100,000	-
Trade accounts receivable	(306,000)	(325,000)
Inventory	1,048,000	(283,000)
Prepaid expenses and other current assets	(3,000)	64,000
Trade accounts payable	224,000	323,000
Accrued liabilities	33,000	(71,000)
Other assets and liabilities	(2,000)	-
Total adjustments	1,287,000	(133,000)
Net cash provided by (used for) operating activities	537,000	(613,000)
Cash flows provided by (used for) investing activities:		
Acquisition of property & equipment	(16,000)	(29,000)
Payments for investments in joint ventures	-	(539,000)
Payments for investments in securities	(350,000)	-
All other investing activity	-	25,000
Net cash used for investing activities	(366,000)	(543,000)
Impact of exchange rates on cash	2,000	14,000
Net increase (decrease) in cash and cash equivalents	173,000	(1,142,000)
Cash and cash equivalents, beginning of period	1,905,000	3,095,000
Cash and cash equivalents, end of period	\$2,078,000	\$1,953,000
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$39,000	\$39,000
Cash paid for income taxes, net	\$3,000	\$3,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents

TAITRON COMPONENTS INCORPORATED

Notes to Condensed Consolidated Financial Statements (unaudited)

1 – ORGANIZATION

In 1989, we were formed and incorporated in California. We maintain a majority-owned subsidiary in Mexico (since 1998) and two subsidiaries in each of Taiwan (since 1998) and China (since 2005). Our Mexico location is 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.

2 – BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements include the accounts of the Company and all wholly owned subsidiaries, including its 60% majority-owned subsidiary, Taitron Components Mexico, S.A. de C.V. All significant intercompany accounts and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature and considered necessary for a fair presentation of its financial condition and results of operations for the interim periods presented in this Quarterly Report on Form 10-Q have been included. Operating results for the interim periods are not necessarily indicative of financial results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in the Company’s condensed consolidated financial statements relate to the allowance for sales returns, doubtful accounts, inventory reserves, accrued liabilities and deferred income taxes. Certain amounts in the prior year condensed consolidated financial statements have been reclassified to conform to the current year presentation.

3 – RECENT ACCOUNTING DEVELOPMENTS

In September 2011, the FASB issued ASU No. 2011-05 “Presentation of Comprehensive Income”, that updates the presentation such that an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (the first quarter of our fiscal year 2012). Further, in December 2011, the FASB issued ASU No. 2011-12 that effectively defers the changes in ASU No. 2011-05 related to the presentation of reclassification adjustments out of accumulated other comprehensive income. We updated our presentation of comprehensive income in accordance with this ASU. The adoption of this ASU did not result in a material impact on our condensed consolidated financial statements and related disclosures.

In December 2011, the FASB issued ASU No. 2011-11 “Disclosures about Offsetting Assets and Liabilities”, the objective of which is to provide additional disclosures on the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities within the scope of the update. The update primarily impacts financial instruments and derivatives subject to a master netting arrangement or similar agreement. ASU No. 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013 (the first quarter of our fiscal year 2013). We are currently evaluating the disclosures required under this ASU.

Table of Contents

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the United States Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future financial statements.

4 – RESTRICTED CASH

At September 30, 2012 and December 31, 2011, we had \$100,000 and \$200,000, respectively, of restricted cash on deposit as collateral for our irrevocable letter of credit in favor of a trade vendor for inventory purchasing.

5 – OTHER ASSETS

	September 30, 2012 (Unaudited)	December 31, 2011
Investment in securities - Zowie Technology	\$ 418,000	\$ 68,000
Investment in joint venture - Taiteam Technology	147,000	147,000
Investment in joint venture - Grand Shine Mgmt	637,000	637,000
Other	24,000	22,000
Other Assets	\$ 1,226,000	\$ 874,000

Our \$418,000 investment in securities as of September 30, 2012 relates to our ownership of 154,808 shares of common and 1,007,902 shares of 7% convertible preferred (maturing December 2014) securities of Zowie Technology Corporation (Taipei Hsien, Taiwan), a manufacturer of discrete semiconductors and also a supplier of our electronic component products. Our investment in common stock is less than 5% of Zowie's outstanding shares and we do not have significant influence or control. This investment is accounted for under the cost method basis of accounting.

Our \$147,000 investment in joint venture as of September 30, 2012, relates to our 49% ownership of Taiteam (Yangzhou) Technology Corporation Limited (Yangzhou, China), a joint venture with its 51% owner, Full Harvest Development Limited. This joint venture is not considered to be a "Variable Interest Entity", 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 material activity in this joint venture during the recent quarter ending September 30, 2012.

Our \$637,000 investment in joint venture as of September 30, 2012, relates to our initial cumulative investment as part of our planned acquisition of 49% ownership of Grand Shine Management Limited (Dong Guan, China), an electronic device contract manufacturer and joint venture with its 51% owner, Teamforce Company Limited. Our total investment in 2012 is expected to aggregate \$686,000, of which \$245,000 is for the 49% ownership interest and \$441,000 is for our 49% proportional share of operating capital requirements. This joint venture is not considered to be a "Variable Interest Entity", and as such, is accounted for under the equity method basis of accounting.

6 – LONG-TERM DEBT FROM RELATED PARTY

Secured credit facility - On April 21, 2008 we entered into a \$3,000,000 credit facility, collateralized by real property, from K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer. On March

7, 2011 we renewed and extended maturities to September 30, 2013. Credit is available in \$500,000 advances, each advance payable in monthly interest only installments, at the rate of Prime + 0.25% per annum. As of September 30, 2012 and December 31, 2011, the aggregate outstanding balance on this credit facility was \$1,500,000. The advance history of the credit line is such that on September 3, 2008, we borrowed \$500,000, on April 3, 2009, we borrowed \$500,000 and on April 1, 2010, we borrowed \$500,000. All advances are due September 30, 2013.

Table of Contents

7 – RELATED PARTY TRANSACTIONS

We made payments of approximately \$6,000 for both of the three-month periods ended September 30, 2012 and 2011 and \$18,000 for both of the nine-month periods ended September 30, 2012 and 2011, to K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer. These payments were for professional fees related to the operational management of our Taiwan office. In addition, we also made payments of \$13,000 for both of the quarters ended September 30, 2012 and 2011 and \$39,000 for both of the nine-month periods ended September 30, 2012 and 2011, for interest expense on our credit facility from K.S. Best International Co. Ltd. See Note 6.

We have a \$3,000,000 credit facility, collateralized by real property, from K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer. See Note 6 for additional details.

8 – SHARE BASED COMPENSATION

Accounting for stock options issued to employees measures 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 is recognized over the period during which an employee is required to provide service in exchange for the award. Outstanding options to purchase Class A common stock (“the Options”) vest in three equal annual installments beginning one year from the date of grant and are subject to termination provisions as defined in our 2005 Stock Incentive Plan. We use the Black-Scholes option pricing model to measure the fair value of the Options granted to employees. The option activity during the nine months ended September 30, 2012 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Years Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	427,500	\$ 1.49	4.4	\$ 18,300
Granted	90,000	1.02	8.7	\$ -
Forfeited	(63,000)	2.70		
Outstanding at September 30, 2012	454,500	1.35	4.8	\$ 6,220
Exercisable at September 30, 2012	269,834	\$ 1.52	3.2	\$ 4,900

At September 30, 2012 the range of individual outstanding weighted average exercise prices was \$0.84 to \$1.85.

9 – COMMITMENTS AND CONTINGENCIES

Inventory Purchasing

Outstanding commitments to purchase inventory from suppliers aggregated \$1,340,000 as of September 30, 2012.

Investment in joint venture

Outstanding commitments to invest in Grand Shine Management aggregated \$49,000 as of September 30, 2012 (see Note 5).

Table of Contents

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 Part 1 of this quarterly report on Form 10-Q, as well as our most recent annual report on Form 10-K for the year ended December 31, 2011.

This document contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 which are subject to 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. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

References to "Taitron," the "Company," "we," "our" and "us" refer to Taitron Components Incorporated and its wholly owned and majority-owned subsidiaries, 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 three months ended September 30, 2012 and 2011 were \$4,000 and \$3,000, respectively and for the nine months ended September 30, 2012 and 2011 were \$26,000 and \$16,000, respectively. The allowance for sales returns and doubtful accounts at September 30, 2012 and December 31, 2011 aggregated \$87,000 and \$92,000, respectively.

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 \$11,753,000 and \$12,801,000 at September 30, 2012 and December 31, 2011, respectively, which is presented net of valuation allowances of \$4,903,000 and \$4,233,000, respectively. 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 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.

Overview

We distribute both brand name electronic components and private labeled original designed and manufactured electronic components ("ODM Components") and provide integrated services and solutions to support original equipment manufacturers ("OEMs") and original design manufacturers ("ODMs"). Our product offerings range from discrete semiconductors (transistors, diodes, etc.), optoelectronic devices and passive components to small electronic

devices.

Due to ongoing economic recession and related decreased product demand, we are placing 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”), 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 offshore solution providers (OEMs and CEMs).

7

Table of Contents

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 September 30, 2012, condensed consolidated financial statements representing approximately 80% of current assets and 57% 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.

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.

Results of Operations

Third quarter of 2012 versus 2011.

Net sales in the third quarter of 2012 totaled \$1,945,000 versus \$1,682,000 in the comparable period for 2011, an increase of \$263,000 or 15.6% over the same period last year.

Gross profit for the third quarter of 2012 was \$427,000 versus \$476,000 in the comparable period for 2011, and gross margin percentage of net sales was 22% in the third quarter of 2012 versus 28.3% in the comparable period for 2011. The overall decrease in gross margin percentage came from higher inventory reserves compared to the same period last year.

Selling, general and administrative expenses in the third quarter of 2012 totaled \$609,000 versus \$649,000 in the comparable period for 2011. The decrease of \$40,000 or 6.2% was primarily attributed to decreases in salaries and benefits in our overseas divisions due to personnel reductions.

Interest expense, net of interest income, was \$8,000 for the third quarter of 2012 and \$13,000 in the comparable period for 2011. This decrease was primarily attributed adjustments to our investment in marketable securities for 2011.

Other income, net of other expense, in the third quarter of 2012 was \$27,000 versus \$26,000 in the comparable period for 2011. Other income was primarily derived from the rental income of available excess office space within our headquarters' facility in Valencia, CA.

Income tax provision in the third quarter of 2012 was \$1,000 versus \$0 in the comparable period for 2011, as we do not expect significant taxable income.

Net loss was \$164,000 for the third quarter of 2012 versus \$160,000 in the comparable period for 2011, an increase of \$4,000 resulting from the reasons discussed above.

Nine Months Ended September 30, 2012 versus Nine Months Ended September 30, 2011.

Net sales in the nine months ended September 30, 2012 was \$5,045,000 versus \$5,199,000 in the comparable period for 2011, a decrease of \$154,000 or 3% over the same period last year.

Gross profit for the nine months ended September 30, 2012 was \$1,053,000 versus \$1,657,000 in the comparable period for 2011, and gross margin percentage of net sales was approximately 20.9% for the nine months ended September 30, 2012 and 31.9% for 2011, respectively. The overall decrease in gross margin percentage came from higher inventory reserves compared to the same period last year.

Selling, general and administrative (“SG&A”) expenses in the nine months ended September 30, 2012 totaled \$1,849,000 versus \$2,154,000 in the comparable period for 2011. The decrease of \$305,000 or 14.2% was primarily attributed to decreases of salaries and benefits.

Table of Contents

Interest expense, net of interest income, was \$25,000 for the nine months ended September 30, 2012 versus \$51,000 in the comparable period for 2011.

Other income, net of other losses, in the nine months ended September 30, 2012 was \$73,000 versus \$70,000 in the comparable period for 2011.

Income tax provision was \$2,000 for the nine months ended September 30, 2012 and \$2,000 in the comparable period for 2011.

Net loss was \$750,000 for the nine months ended September 30, 2012 versus \$480,000 in the comparable period for 2011, an decrease of \$270,000 resulting from the reasons discussed above.

Liquidity and Capital Resources

We have financed our operations with funds generated from operating activities and borrowings under our revolving credit facility.

Cash flows provided by operating activities were \$537,000 as opposed to used in of \$613,000 for the nine months ending September 30, 2012 and 2011, respectively. The increase of \$1,150,000 in cash flows provided by operations compared with the prior period resulted from changes in operating assets and liabilities, primarily from reductions of restricted cash, inventory and accounts receivables compared to the prior period.

Cash flows used in investing activities were \$366,000 and \$543,000 for the nine months ending September 30, 2012 and 2011, respectively, primarily attributed to our investment in marketable securities of Zowie Technology Corporation (see Note 5).

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 September 30, 2012, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk. - Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our principal executive and principal financial officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely

manner, and (2) accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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. [Removed and Reserved]

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).

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

Table of Contents

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: November 14, 2012

/s/ Stewart Wang

Stewart Wang,

Chief Executive Officer and President

(Principal Executive Officer)

/s/ David Vanderhorst

David Vanderhorst

Chief Financial Officer and Secretary

(Principal Financial Officer)

Table of Contents