

TRIO TECH INTERNATIONAL

Form 10-K

September 25, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

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

For the fiscal year ended June 30, 2006

OR

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

For the Transition Period from _____ to _____

Commission File Number 1-14523

TRIO-TECH INTERNATIONAL

(Exact name of Registrant as specified in its Charter)

California

(State or other jurisdiction of
incorporation or organization)

95-2086631

(I.R.S. Employer
Identification Number)

14731 Califa Street

Van Nuys, California

(Address of principal executive offices)

91411

(Zip Code)

Registrant's Telephone Number: **818-787-7000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange On which registered
Common Stock, no par value	AMEX
Securities registered pursuant to Section 12(g) of the Act:	
None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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The aggregate market value of voting stock held by non-affiliates of Registrant, as of December 31, 2005 was approximately \$18.9 million (based upon the last sales price for shares of Registrant's Common Stock as reported by the AMEX on December 31, 2005, the last business day of the Company's most recently completed second fiscal quarter). Shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock (including shares with respect to which a holder has the right to acquire beneficial ownership within 60 days) have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock outstanding as of September 12, 2006 was 3,219,407.

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TRIO-TECH INTERNATIONAL
PART I

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

The discussions of Trio-Tech International's (the Company) business and activities set forth in this Form 10-K 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 statement made by or on behalf of the Company: market acceptance of Company products and services; changing business conditions or technologies and volatility in the semiconductor industry, which could affect demand for the Company's products and services; the impact of competition; problems with technology; product development schedules; delivery schedules; changes in military or commercial testing specifications which could affect the market for the Company's products and services; difficulties in profitably integrating acquired businesses, if any, into the Company; risks associated with conducting business internationally and especially in Southeast Asia, including currency fluctuations and devaluation, currency restrictions, local laws and restrictions and possible social, political and economic instability; and other economic, financial and regulatory factors beyond the Company's control. The occurrence of a tsunami in Asia and hurricanes in the southern part of North America had an indirect impact on the Company. Worldwide oil prices increased after several hurricanes in the first quarter of fiscal 2006, which caused companies to incur higher costs. 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. We anticipate that this chain effect will hit the Company's business gradually in the future. See the discussions elsewhere in this Form 10-K, including under the heading "Certain Risks That May Affect Our Future Results", for more information. In some cases, you can identify forward-looking statements by the use of terminology such as may, will, expects, plans, anticipates, estimates, potential, impact, continue, or the negative thereof or other comparable terminology.

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

ITEM 1 BUSINESS (IN THOUSANDS, EXCEPT PERCENTAGES AND SHARE AMOUNTS)

Trio-Tech International was incorporated in 1958 under the laws of the State of California. As used herein, the term Trio-Tech or Company or we or us or Registrant includes Trio-Tech International and its subsidiaries unless the context otherwise indicates. Our mailing address and executive offices are located at 14731 Califa Street, Van Nuys, California 91411, and our telephone number is (818) 787-7000.

With more than 48 years dedicated to the semiconductor and related industries, we have applied our expertise to our global customer base in test services, design, engineering, manufacturing, and distribution.

General

Trio-Tech International provides third-party semiconductor testing and burn-in services primarily through its laboratories in Southeast Asia. We also design, manufacture and market equipment and systems to be used in the process of testing semiconductors at our facilities in California and Southeast Asia, and distribute semiconductor processing and testing equipment manufactured by other vendors.

We operate in three business segments: Testing Services, Manufacturing and Distribution. The financial information on the measurement of profit or loss and total assets for the three segments as well as geographic areas information can be found under management's discussion and analysis of results of operations and financial conditions, as well as in the financial statements included in this report. Our working capital requirements are covered under management's discussion and analysis of business outlook, liquidity and capital resources.

We currently operate four testing facilities, one in the United States and four in Southeast Asia. These facilities provide customers with a full range of testing services, such as burn-in and product life testing for finished or packaged semiconductors.

Our Ireland operation, as a component of the Testing segment, suffered continued operating losses in the three fiscal years ended June 30, 2005 and the cash flows were minimal during the same three fiscal years. In August 2005, we

established a restructuring plan to close the Testing operation in Dublin, Ireland. In November 2005, we completed the sale of the property

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located in Dublin, Ireland and recorded a gain of \$8,909. As a result, this discontinued operation reported an income of \$8,459, which consisted of the gain from the sale of property of \$8,909 offset by the loss from discontinued operation of \$450.

In January 2006, we completed the acquisition of a burn-in testing division in Shanghai. Management believes that acquiring the burn-in testing business will enhance our future growth opportunities and develop our China market share in testing services.

Our Manufacturing segment manufactures Artic Temperature Controlled Wafer Chucks, which are used for test, characterization and failure analysis of semiconductor wafers, Wet Process Stations, which wash and dry wafers at a series of 100 to 300 additional processing steps after the etching or deposition of integrated circuits, and other microelectronic substrates in what is commonly called the front-end, or creation of semiconductor circuits. Additionally, we also manufacture centrifuges, leak detectors, HAST (Highly Accelerated Stress Test) systems and burn-in systems that are used primarily in the back-end of the semiconductor manufacturing process to test finished semiconductor devices and electronic components.

Our Distribution segment operates primarily in Southeast Asia. This segment markets and supports distribution of our own manufactured equipment in addition to distributing complementary products supplied by other manufacturers that are used by our customers and other semiconductor and electronics manufacturers. We expanded the distribution business to include a strategic business unit mainly to serve as a distributor of electronic components to customers.

Company History

- 1958 Incorporated in California.
- 1976 The Company formed Trio-Tech International Pte. Ltd. in Singapore.
- 1984 The Company formed the European Electronic Test Center (EETC), a Cayman Islands domiciled subsidiary, to operate a test facility in Dublin, Ireland.
- 1985 The Company's Singapore subsidiary entered into a joint-venture agreement, Trio-Tech Malaysia, to operate a test facility in Penang.
- 1986 Trio-Tech International listed on the NASDAQ Small Cap market under the symbol TRTC.
- 1988 The Company acquired the Rotating Test Equipment Product Line of Genisco Technology Corporation.
- 1990 Trio-Tech International acquired Express Test Corporation in California.
Trio-Tech Malaysia opened a new facility in Kuala Lumpur.
- 1992 Trio-Tech Singapore opened Trio-Tech Bangkok, Thailand.
Trio-Tech Singapore achieved ISO 9002 certification.
- 1994 Trio-Tech Malaysia started a new components assembly operation in Batang Kali.
- 1995 Trio-Tech Singapore achieved ISO 9001 certification.
- 1997 In November 1997, the Company acquired KTS Incorporated, dba Universal Systems of Campbell, California.
- 1998 In September 1998, the Company listed on AMEX under the symbol TRT.

- 2000 Trio-Tech Singapore achieved QS 9000 certification.
Trio-Tech Malaysia closed its facility in Batang Kali.
- 2001 The Company divested the Rotating Test Equipment Product Line.
Trio-Tech Malaysia closed its facility in Kuala Lumpur.
- 2003 Trio-Tech Singapore opened a sales office in China known as Trio-Tech (Suzhou) Co. Ltd.
Trio-Tech Malaysia scaled down its facility in Penang.
- 2004 The Company moved its Wet Process Station manufacturing from Campbell, California to Singapore.
Trio-Tech Test Services Pte. Ltd. was renamed Universal (Far East) Pte. Ltd.
Trio-Tech Malaysia acquired a burn-in testing division in Petaling Jaya.
- 2005 Trio-Tech Singapore, Trio-Tech Malaysia and Trio-Tech Bangkok achieved ISO 9001, 2000 certification.
Trio-Tech Singapore, Trio-Tech Malaysia and Trio-Tech Bangkok achieved ISO/TS16949, 2002 certification.
Trio-Tech Ireland closed its facility in Ireland.
- 2006 Trio-Tech Singapore acquired a burn-in testing company in Shanghai and changed its name to Trio-Tech (Shanghai) Co. Ltd.

Background

The semiconductor industry has experienced substantial growth over the long term. This growth has resulted from the increasing demand for microchips for a broad range of applications, including personal computers, consumer electronics, wired and wireless telecommunications infrastructures, and automotive, multimedia, portable and network computing. According to the Semiconductor Industry Association (SIA), worldwide sales of semiconductors totaled \$19.6 billion in June 2006, increasing over 9% from June 2005. Total worldwide sales of semiconductors for the first half of calendar 2006 were \$118 billion, increasing 8.3% over the first half of calendar 2005. The Semiconductor Industry Association projected that the industry will

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grow by 11.0 % in 2007, 12.0% in 2008, and 4.0 % in 2009. If the latest forecast materializes, worldwide semiconductor sales would reach \$323 billion in 2009. Actual sales for calendar 2005 amounted to \$227.5 billion. The new forecast projects an average compound annual growth rate of 9.2 % from 2005 through 2009. While demand for semiconductor devices continues to rise, strong competitive pressures that have reduced prices in some major product sectors are impacting revenues in the semiconductor industry. Companies are continually seeking new ways to enhance the productivity of their operations.

We own and operate facilities that provide testing services for semiconductor products to ensure that these products meet the requirements for military, aerospace, industrial and commercial applications. Testing services represented approximately 50%, 45%, and 45% of net sales for the fiscal years ended June 30, 2006, 2005 and 2004, respectively. We use our own proprietary equipment for certain burn-in, centrifugal and leak tests, and commercially available equipment for various other environmental tests. We conduct the majority of our testing operations in Southeast Asia with facilities in Singapore, Malaysia, Thailand and China. Most of the facilities in Southeast Asia are either ISO9001, ISO 9002, and QS 9000 certified. In August 2005, we established a restructuring plan to close our testing operation in Dublin, Ireland, as the operation did not generate adequate operating cash flows during the past three years. The testing operations closed in November 2005.

Testing services are rendered to manufacturers and purchasers of semiconductors and other entities who either lack testing capabilities or whose in-house screening facilities are insufficient for testing devices in order for them to make sure that these products meet military or certain commercial specifications. Customers outsource their test services either to accommodate fluctuations in output or to benefit from economies that can be offered by third party service providers. For those customers with adequate in-house capabilities, we offer testing services for their overflow requirements and also provide independent testing verification services.

Our laboratories perform a variety of tests, including stabilization bake, thermal shock, temperature cycling, mechanical shock, constant acceleration, gross and fine leak tests, electrical testing, static and dynamic burn-in tests, and vibration testing. Our laboratories also perform qualification testing, consisting of intense tests conducted on small samples of output from manufacturers who require qualification of their processes and devices.

We design, develop, manufacture and market equipment for the manufacturing and testing of semiconductor wafers, devices and other electronic components. Revenue from the sale of products manufactured by the Company represented approximately 43%, 43% and 38% of net sales for the fiscal years ended June 30, 2006, 2005 and 2004, respectively.

Front-End Products***Wet Process Stations***

Wet Process Stations are used for cleaning, rinsing and drying semiconductor wafers, magnetic disks, flat panel displays and other microelectronic substrates. After the etching or deposition of integrated circuits, wafers are typically sent through a series of 100 to 300 additional processing steps. At many of these processing steps, the wafer is washed and dried using Wet Process Stations. This product line includes manual, semi-automated and automated Wet Process Stations, and features radial and linear robots, state-of-the-art PC touch-screen controllers and sophisticated scheduling and control software. The Wet Process Station is currently manufactured in Singapore.

Artic Temperature Controlled Wafer Chucks

The Artic Temperature Controlled Chucks are used for test, characterization and failure analysis of semiconductor wafers and other components at accurately controlled hot and cold temperatures. Several models are available with temperature ranges from -65°C to +400°C and in diameters from 4 to 12 inches. The finished wafer is put through a series of tests using the Artic Temperature Controlled Chucks in which each separate integrated device on the wafer is tested at accurately controlled temperatures for functionality. After testing, the wafer is diced or cut up, and each die is then placed into packaging material, usually plastic or ceramic, with lead wires to permit mounting onto printed circuit boards. These systems provide excellent performance to meet the most demanding customer applications. Several unique mechanical design features, for which patents have been granted, provide excellent mechanical stability under high probing forces and across temperature ranges.

Back-End Products***Autoclaves and HAST (Highly Accelerated Stress Test) Equipment***

We manufacture a range of autoclaves and HAST systems and specialized test fixtures. Autoclaves provide pressurized, saturated vapor (100% relative humidity) test environments for fast and easy monitoring of integrated circuit manufacturing processes. HAST equipment, which provides a pressurized high temperature environment with variable humidity, is used to determine the moisture resistance of plastic encapsulated devices. HAST provides a fast and cost-effective alternative to conventional non-pressurized temperature and humidity testing.

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Burn-in Equipment and Boards

We manufacture burn-in systems, burn-in boards and burn-in board test systems. Burn-in equipment is used to subject semiconductor devices to elevated temperatures while testing them electrically to identify early product failures and to assure long-term reliability. Burn-in testing approximates, in a compressed time frame, the electrical and thermal conditions to which the device would be subjected during its normal life.

We manufacture the COBIS II burn-in system which offers state-of-the-art dynamic burn-in capabilities and a Windows-based operating system with full data logging and networking features. We also offer burn-in boards for our BISIC, COBIS and COBIS II burn-in systems and other brands of burn-in systems. Burn-in boards are used to mount devices during high temperature environmental stressing.

We have developed several new products to complement the burn-in processes, including semi-automatic (LUBIBM) and automatic burn-in board loaders and unloaders (LUBIB). These products are designed to perform precise, high-speed transfer of IC packages from the semiconductor holding tray to the burn-in board, or vice versa, while maintaining the integrity of the IC's leads. Burn-in-board cleaning systems (CUBIB) are designed to perform wet or dry cleaning for burn-in boards and other modular boards.

We build Smart Burn-In (SBI) electrical equipment and System Level Test (SLT) equipment which are used at the few final stages of testing these microprocessor devices. While providing integrated burn-in solutions, we present total burn-in automation solutions to improve products' yield, reduce process downtime and improve efficiency. In addition, we developed a cooling solution for high power heat dissipation semiconductor devices. This solution involves the cooling or maintaining of the temperature of high power semiconductor devices.

Component Centrifuges and Leak Detection Equipment

Component centrifuges and leak detection equipment are used to test the mechanical integrity of ceramic and other hermetically sealed semiconductor devices and electronic parts for high reliability and aerospace applications. Our centrifuges spin these devices and parts at specific acceleration rates, create gravitational forces (g's) up to 30,000g's, and thereby indicate any mechanical weakness in the devices. Leak detection equipment is designed to detect leaks in hermetic packaging. The first stage of the test includes pressurizing the devices in a tracer gas for fine leaks or fluid for gross leaks. The bubble tester is used for gross leak detection. A visual bubble trail will indicate when a device is defective.

One of our subsidiaries located in Singapore continues to develop its international distribution activities in Southeast Asia. In addition to marketing our own proprietary products, this subsidiary distributes complementary products from other manufacturers based in the United States, Europe, Japan and other countries. The products sold included environmental chambers, shaker systems, handlers, interface systems, vibration systems, solderability testers and other manufactured products.

In recent years, many multinational companies in electronic manufacturing and semiconductor industries have set up production facilities in China, and this presented excellent opportunities for our testing equipment in China. Requirement for auxiliary services such as after-sales installation, equipment services, and spare parts will be natural add-ons.

During fiscal 2006, our Singapore distribution operation participated in the 67th annual CEF (China Electronic Fair) and conducted a soft launch of our Wet Process Stations at the show. We appointed a Chinese representative to market the Wet process Stations in China. This fair has created business opportunities for us and has taken us a step further in the international business arena to demonstrate our Wet Process Stations.

Revenue from distribution activities represented approximately 7%, 12% and 17% of net sales for the years ended June 30, 2006, 2005 and 2004, respectively.

Product Research and Development

The research and development costs in our U.S. operation decreased due to fewer activities and less payroll costs. The Company incurred research and development costs of \$70 in fiscal 2006, \$93 in fiscal 2005 and \$117 in fiscal 2004. Research and development efforts for our U.S. operation will consist of minor product improvements. The HAST software will be converted to a Windows based operating system and the ARTIC chiller units will be evaluated for upgrades that are in line with the latest heat removal and pump technology.

Table of Contents**Marketing, Distribution and Services**

We market our products and services worldwide, directly and through independent sales representatives. We have approximately 8 independent sales representatives operating in the United States and another 17 in various foreign countries. Of the 25 sales representatives, three are representing the distribution segment and the others are representing the manufacturing and testing segments. Trio-Tech's United States marketing efforts are coordinated from its California location. Southeast Asia marketing efforts are assigned to its subsidiary in Singapore. We advertise our products in trade journals and participate in trade shows.

Independent testing laboratories, users, assemblers and manufacturers of semiconductor devices, including many large well-known corporations, purchase our products and services. These customers depend on the current and anticipated market demand for integrated circuits and products utilizing semiconductor devices. Our ability to maintain close, satisfactory relationships with our customers is essential to our stability and growth. The loss, reduction, or delay of orders placed by our significant customers and delays in collecting accounts receivable from our significant customers could adversely affect our results of operations and financial positions.

In fiscal 2006, 2005 and 2004, sales of equipment and services to our three largest customers (Advanced Micro Device Freescale, and Catalyst Semiconductor) accounted for approximately 67%, 74% and 53%, respectively, of our net revenue. During fiscal 2006, we had sales of \$12,865 (44%), \$4,322 (15%) and \$2,517 (9%) to Advanced Micro Devices, Freescale Semiconductor and Catalyst Semiconductor, respectively. During fiscal 2005, we had sales of \$9,054 (36%), \$6,805 (27%) and \$2,713 (11%) to Advanced Micro Devices, Freescale Semiconducto, Catalyst Semiconductor, respectively. During fiscal 2004, we had sales of \$7,074 (38%) and \$2,853 (15%) to Advanced Micro Devices. and Catalyst Semiconductor, respectively. The three customers mentioned above are U.S. companies; however, the revenue generated from them was from their facilities located outside of the U.S. The majority of our sales and services in fiscal years 2006, 2005 and 2004 were to customers outside of the United States. See information appearing in Note 20 Business Segments, which is incorporated by reference, for further financial information about geographic areas.

Backlog

The following table sets forth the Company's backlog at the dates indicated (amounts in thousands):

	June 30, 2006	June 30, 2005
Manufacturing backlog	\$ 3,729	\$ 882
Testing service backlog	12,030	7,384
Distribution backlog	535	1,099
	\$ 16,294	\$ 9,365

Based upon our past experience, we do not anticipate any significant cancellations or renegotiation of sales. If there is any cancellation of a confirmed purchase order, the customer is required to reimburse us for all costs that were incurred because the purchase orders for manufacturing, testing and distribution businesses generally require a delivery within 12 months from the date of the purchase order. We do not anticipate any difficulties in meeting delivery schedules.

Materials and Supply

Our products are designed by our engineers and are assembled and tested at our facilities in California and Singapore. We purchase all parts and certain components from outside vendors for assembly purposes. We have no written contracts with any of our key suppliers. As these parts and components are available from a variety of sources, we believe that the loss of any one of our suppliers would not have a material adverse effect on our result of operations taken as a whole.

Competition

There are numerous testing laboratories in the areas where we operate that perform a range of testing services similar to those offered by us. However, recent severe competition in the South Asia testing and burn-in services industry has

reduced the total number of our competitors. As we have sold and will continue to sell our products to competing laboratories, and other test products are available from many other manufacturers, our competitors are able to offer the same testing capabilities. The relevant testing equipment is also available to semiconductor manufacturers and users who might otherwise use third party testing laboratories, including us, to perform testing. The existence of competing laboratories and the purchase of testing equipment by semiconductor manufacturers and users are potential threats to our future testing services revenue and

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earnings. Although these laboratories and new competitors may challenge us at any time, we believe that other factors, including reputation, long service history and strong customer relationships, are more important than pricing factor in determining our position on the market.

The distribution segment sells a wide range of testing products. We believe that the equipment, components trading and equipment servicing markets are key growth areas in Southeast Asia and hence have focused our marketing efforts on Asia. As the semiconductor equipment industry is highly competitive, the distribution operation faces stiff price competition if the equipment is sold piecemeal. Thus, Add value has been a key phrase in our sales mission for the past years. We believe that Add value will continue to dominate as the key focal point as we offer integrated solutions which draw on the strengths of our technical specialists who have undergone intensive training with our vendors. Equipment is brought into Singapore from various vendors, and depending on customers specific requirements, is tested and system integrated before distribution, delivery and installation.

The demand for electronic components was relatively strong in Southeast Asia, driven by a greater demand in high-end personal computers, notebooks and server chips. Many Original Equipment Manufacturers (OEM) customers have been outsourcing for connectors and specialized sockets. However, as our target customers are mainly multinational contract manufacturers with a worldwide database of suppliers, the most commonly used components became extremely price competitive. The components division not only competed against similar products, but also with the direct online ordering system put in place by the vendors. However, such online competition is discounted as a minor competitive factor, as we offer good credit facilities and maintain excellent business relationships with our long-term customers.

The semiconductor equipment manufacturing industry is highly competitive and most of our competitors for such equipment are located in Southeast Asia. Some of our electronic device manufacturing customers in Southeast Asia increased their capital equipment in order to meet the increase in production capacity for electronic products. There is no assurance that competition will not increase or that our technological advantages may not be reduced or lost as a result of technological advances by competitors or changes in semiconductor processing technology.

We believe that the principal competitive factors in the manufacturing industry include product performance, reliability, service and technical support, product improvements, price, established relationships with customers and product familiarity. We make every effort to compete favorably with respect to each of these factors. Although we have competitors for our various products, we believe that our products compete favorably with respect to each of the above factors. We have been in business for more than 48 years and have operation facilities mostly located in Southeast Asia. We believe that those factors have combined into one force which has helped us to establish long-term relationships with customers and will allow us to continue doing business with our existing customers upon their relocation to other regions where we have a local presence or we are able to reach.

Patents

The manufacturing segment holds a United States Patent granted in 1987 in relation to our pressurization humidity testing equipment. We also hold a United States Patent granted in 1994 on certain aspects of our Artic temperature test systems. In 2001, we registered a new United States patent (for 20 years) for several aspects of our new range of Artic Temperature Controlled Chucks. Although we believe that these patents are an integral part of our Manufacturing segment, the capitalized cost of the patents was written off in fiscal 2002 because of the impairment assessed by our management. In fiscal 2004, 2005 and 2006 we did not register any patents within the U.S.

It is typical in the semiconductor industry to receive notices from time to time alleging infringement of patents or other intellectual property rights of others. We do not believe that we infringe the intellectual property rights of any others. However, should any claims be brought against us, the cost of litigating such claims and any damages could materially and adversely affect our business, financial condition, and results of operations.

Employees

As of June 30, 2006 we had approximately 12 employees in the United States and 593 in Southeast Asia for a total of approximately 605 employees. None of our employees are represented by a labor union. As of June 30, 2006, there were approximately 404 employees in the testing segment, 147 employees in the manufacturing segment, and 52 employees in the distribution segment and 2 in the corporate office.

ITEM 1A RISK FACTORS

The following are certain risk factors that could impact our business, financial results and results of operations. Investing in our common stock involves risks, including those described below. These risk factors, among others, should be considered by

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prospective and current investors in our common stock when evaluating the disclosures in this Annual Report on Form 10-K (particularly the forward-looking statements.) These risk factors could cause actual results and conditions to differ materially from those projected herein. If the risks we face, including those listed below, actually occur, our business, financial condition or results of operations could be negatively impacted, and the trading price of our common stock could decline, which could cause you to lose all or part of your investment.

Our operating results are affected by a variety of factors

Our operating results are affected by a wide variety of factors that could materially affect revenues and profitability or lead to significant variability of quarterly or annual operating results. These factors include, among others, components relating to:

economic and market conditions in the semiconductor industry;

market acceptance of our products and services;

changes in technology in the semiconductor industry, which could affect demand for our products and services;

changes in testing processes;

the impact of competition;

the lack of long-term purchase or supply agreements with customers and vendors;

changes in military or commercial testing specifications, which could affect the market for our products and services;

difficulties in profitably integrating acquired businesses, if any, into the Company;

the loss of key personnel or the shortage of available skilled employees;

international political or economic events

currency fluctuations; and

other technological, economic, financial and regulatory factors beyond our control.

Unfavorable changes in these or other factors could materially and adversely affect our financial condition or results of operations. We may not be able to generate revenue growth, and any revenue growth that is achieved may not be sustained. Our business, results of operations and financial condition would be materially adversely affected if operating expenses increased and were not subsequently followed by increased revenues.

Semiconductor industry cycles affect our business

Our business depends primarily upon the capital expenditures of semiconductor manufacturers, assemblers and other testing companies worldwide. These industries in turn depend on the current and anticipated market demand for integrated circuits and products utilizing semiconductor devices. The global semiconductor industry generally, and the semiconductor testing equipment industry in particular, are volatile and cyclical, with periodic capacity shortages and excess capacity. In periods of excess capacity, the industry sharply cuts its purchases of capital equipment, including our distributed products, and reduces testing volumes, including our testing services. Excess capacity also causes downward pressure on the selling prices of our products and services.

Our operating results have been adversely affected by past downturns and slowdowns. There is no assurance that there will not be downturns or slowdowns in the future that may adversely affect our financial condition or operating results. In addition, if one or more of our primary customers reduces its or their purchases or use of our products or testing services, our financial results could be materially and adversely affected. We anticipate that we will continue to

be primarily dependent on the semiconductor industry for the foreseeable future.

Rapid technological changes may make our products obsolete or result in decreased prices or increased expenses

Technology changes rapidly in the semiconductor industry and may make our services or products obsolete. Advances in technology may lead to significant price erosion for products which we test with our older testing technologies. Our success will depend in part on our ability to develop and offer more advanced testing technologies and processes in the future, to anticipate both future demand and the technology to supply that demand, to enhance our current products and services, to provide those products and services at competitive prices on a timely and cost-effective basis and to achieve market acceptance of those products and services. To accomplish these goals, we may be required to incur significant engineering expenses. As new products or services are introduced, we may experience warranty claims or product returns. We may not be able to accomplish these goals correctly or timely enough. If we fail in our efforts, our products and services may become less competitive or obsolete.

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Our dependence on international sales involves significant risk

Sales and services to customers outside the United States accounted for approximately 91%, 92% and 75% of our sales for fiscal 2006, 2005 and 2004, respectively. Approximately 90%, 91% and 74% of our net revenues in fiscal 2006, 2005 and 2004, respectively, were generated from business in Southeast Asia. We expect that our non-U.S. sales and services will continue to generate the majority of our future revenues. Testing services in Southeast Asia were performed primarily for American companies, and to a lesser extent German companies, selling products and doing business in those regions. International business operations may be adversely affected by many factors, including fluctuations in exchange rates, imposition of government controls, trade restrictions, political, economic and business events and social and cultural differences.

We may incur losses due to foreign currency fluctuations

Significant portions of our revenue are denominated in Singapore and Euro dollars, Malaysian Ringgit, Thai baht and other currencies. Consequently, a portion of our costs, revenue and operating margins may be affected by fluctuations in exchange rates, primarily between the U.S. dollar and such foreign currencies. We are also affected by fluctuations in exchange rates if there is a mismatch between our foreign currency denominated assets and liabilities. Foreign currency translation adjustments resulted in a decrease of \$190 to shareholders' equity for fiscal 2006, an increase of \$25 to shareholders' equity for fiscal 2005 and an increase of \$155 to shareholders' equity for fiscal 2004. We try to reduce our risk of foreign currency fluctuations by purchasing certain equipment and supplies in U.S. dollars and seeking payment, when possible, in U.S. dollars. However, we may not be successful in our attempts to mitigate our exposure to exchange rate fluctuations. Those fluctuations could have a material adverse effect on the Company's financial results.

We do not rely on patents to protect our products or technology

We hold U.S. patents relating to our pressurization humidity testing equipment and certain aspects of our Arctic temperature test systems. Additionally, in fiscal 2001, we were granted patents for certain aspects of our new range of Arctic temperature controlled chucks. However, although we believe our patents are integral to our business, generally we do not rely on patent or trade secret protection for our products or technology. Competitors may develop technologies similar to or more advanced than ours. We cannot assure that our current or future products will not be copied or will not infringe on the patents of others. Moreover, the cost of litigation of any claim or damages resulting from infringement of patents or other intellectual property could adversely affect our business, financial condition and results of operations.

Intense competition can adversely affect our operating results

The semiconductor equipment and testing industries are intensely competitive. Significant competitive factors include price, technical capabilities, quality, automation, reliability, product availability and customer service. We face competition from established and potential new competitors, many of whom have greater financial, engineering, manufacturing and marketing resources than our resources. New products or testing facilities offered by our competitors could cause a decline in our revenue or a loss of market acceptance of our existing products and services. Increased competitive pressure could also lead to intensified price-based competition. Price-based competition may result in lower prices, adversely affecting our operating results.

Loss, reduction or delay of orders from significant customers could adversely affect our financial condition

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large manufacturers and assemblers accounting for a substantial portion of our revenue from product sales and testing revenue. Our experience has been that sales to particular customers may fluctuate significantly from quarter to quarter and year to year. In fiscal 2006, 2005, and 2004, sales of equipment and services to our three largest customers accounted for approximately 67%, 74%, and 53%, respectively, of our net revenue. This applies in particular to our new testing operation in Malaysia, which currently has only one major customer. In the event that the Company loses this customer, all the capital purchases to meet this customer's requirements will be converted to support other products. Our ability to maintain close, satisfactory relationships with our customers is essential to our stability and growth. The loss of or reduction or delay in orders from our significant customers, or delays in collecting accounts receivable from our significant customers, could adversely affect our financial condition and results of operations.

There is a limited market for our testing products and services

If testing equipment is purchased by semiconductor manufacturers and assemblers, it may reduce the likelihood that they will make further purchases of such equipment or use our laboratories for testing services. Although military or other specifications require certain testing to be done by independent laboratories, over time other current customers may have less need of our

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testing services. We believe that there is a growing trend toward outsourcing of the integrated circuit test process. As a result, we anticipate continued growth in the test laboratory business. However, there is no assurance that this trend will continue. In an attempt to diversify our sales mix, we may seek to develop and introduce new or advanced products, and to acquire other companies in the semiconductor equipment manufacturing business.

Acquisition and integration of new businesses could disrupt our ongoing business, distract management and employees, increase our expenses and adversely affect our business

A portion of any future growth may be accomplished through the acquisition of other entities. The success of those acquisitions will depend, in part, on our ability to integrate the acquired personnel, operations, products, services and technologies into our organization, to retain and motivate key personnel of the acquired entities and to retain the customers of those entities. We may not be able to identify suitable acquisition opportunities, obtain financing on acceptable terms to bring the acquisition to fruition or to integrate such personnel, operations, products or services. The process of identifying and closing acquisition opportunities and integrating acquisitions into our operations may distract our management and employees, disrupt our ongoing business, increase our expenses and materially and adversely affect our operations. We may also be subject to certain other risks if we acquire other entities, such as the assumption of additional liabilities. We may issue additional equity securities or incur debt to pay for future acquisitions.

We do not have contracts with key suppliers

We have no written contracts with any of our suppliers. Our suppliers may terminate their relationship with us at any time without notice. There can be no assurance that we will be able to find satisfactory replacement suppliers or that new suppliers would not be more expensive than the current suppliers if any of our suppliers were to terminate their relationship with us.

We are highly dependent on key personnel

Our success has depended, and, to a large extent will depend, on the continued services of S.W. Yong, our Chief Executive Officer and President, Victor H. M. Ting, our Vice President and Chief Financial Officer, our other key senior executives, and engineering, marketing, sales, production and other personnel. We do not have an employment agreement with Mr. Yong or Mr. Ting, but we are the beneficiary of key man life insurance in the amount of \$6 million on Mr. Yong and \$2 million on Mr. Ting. The loss of these key personnel, who would be difficult to replace, could harm our business and operating results. Competition for management in our industry is intense and we may be unsuccessful in attracting and retaining the executive management and other key personnel that we require.

Our management has significant influence over corporate decisions

Currently our officers and directors and their affiliates beneficially own approximately 31.06% of the outstanding shares of common stock, including options held by them that are exercisable within 60 days of the date of filing of this 10-K. As a result, they may be able to significantly influence matters requiring approval of the shareholders, including the election of directors, and may be able to delay or prevent a change in control of the Company.

We may not pay cash dividends in the near future

Although we declared a cash dividend of fifty cents (U.S. 50¢) per share payable to the shareholders of record on January 10, 2006, we may not pay any cash dividends on our common stock in the near future. We anticipate that the future earnings, if any, will be retained for use in the business or for other corporate purposes. Additionally, California law prohibits the payment of dividends if the Company does not have sufficient retained earnings or cannot meet certain asset to liability ratios.

The market price for our common stock is subject to fluctuation

The trading price of our common stock has from time to time fluctuated widely. The trading price may similarly fluctuate in the future in response to quarter-to-quarter variations in our operating results, announcements of innovations or new products by us or our competitors, general conditions in the semiconductor industry and other events or factors. In addition, in recent years, broad stock market indices in general, and the securities of technology companies in particular, have experienced substantial price fluctuations on a daily basis. Fluctuations in the trading price of our common stock may adversely affect our liquidity.

ITEM 1B-UNRESOLVED STAFF COMMENTS

Not applicable

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At this time, we believe that we have used about 89.1% of our fixed property capacity. We also believe that our existing facilities are under-utilized and are adequate and suitable to cover any sudden increase in our needs in the foreseeable future.

The following table presents the relevant information regarding the location and general character of our principal manufacturing and testing facilities:

Location	Principal Use/Segment	Approx. Sq. Ft. Occupied	Owned (O) or Leased (L) & Expiration Date
14731 Califa Street Van Nuys, CA 91411	Headquarters/ Testing/Manufacturing	10,000	(L) Jan. 2008
1004, Toa Payoh North, Singapore			
HEX 07-01/07,	Testing	6,864	(L) Sept. 2006*1
HEX 03-01/03,	Testing/Manufacturing	2,959	(L) Sept. 2006*1
HEX 03-16/17,	Testing	976	(L) Sept. 2006*1
HEX 01-08/15	Testing/Manufacturing	6,864	(L) Jan. 2009
HEX 01-16/17	Testing	1,983	(L) Jan. 2009
HEX 02-08/10,	Testing	2,959	(L) Aug. 2008
HEX 02-11/15	Testing	3,905	(L) Apr. 2008
HEX 04-17	Testing	1,006	(L) May. 2007
HEX 04-14/16	Testing	2,929	(L) May. 2007
HEX 03-08/10	Testing	2,959	(L) May. 2007
HEX 01/07-R1/R2	Testing	710	(L) Sept. 2006*1
HEX 03-06/07	Testing/Manufacturing	1,953	(L) Mar. 2009
HEX 04-05/07	Manufacturing	2,929	(L) May. 2009
		38,996	
1008, Toa Payoh North, Singapore			
HEX 03-01/06,	Testing	7,345	(L) Feb. 2009
HEX 03-09/17,	Logistics/Universal (FE)	6,099	(L) Jan. 2009
HEX 07-17/18,	Testing	4,315	(L) Nov. 2006*1
HEX 07-01,	Testing	3,466	(L) Jan. 2007
HEX 02-17	Universal (FE)	832	(L) Jun. 2007
HEX 02-15/16	Universal (FE)	1,400	(L) Jul. 2007
HEX 01-09/11	Universal (FE)	2,202	(L) Nov. 2007. 2002009
HEX 01-15/16	Universal (FE)	1,400	(L) Oct. 2008
HEX 03-07/08	Testing	1,765	(L) Nov. 2007
HEX 01-S3/S4	Power Substation	1,627	(L) Sept. 2006*1
Plot 1A, Phase 1 Bayan Lepas Free Trade Zone 11900 Penang	Subleased	42,013	(O) *2

Lot No. B7, Kawasan MIEL Batang Kali, Phase II, 43300 Batang Kali Selangor Darul Ehsan, Malaysia	Vacant	24,142	(O) *3
Lot No. 11A, Jalan SS8/2, Sungai Way Free Industrial Zone, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia	Testing	19,334	(L) Jul. 2007
Lot No. 4, Kawasan MIEL Sungai Way Baru Free Industrial Zone, Phase III, Selangor Darul Ehsan, Malaysia	Testing	14,432	(L) Nov. 2007

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Location	Principal Use/Segment	Approx. Sq. Ft. Occupied	Owned (O) or Leased (L) & Expiration Date
327, Chalongkrung Road, Lamplathew, Lat Krabang, Bangkok 10520, Thailand	Testing	34,432	(O)
No. 5, Xing Han Street, Block B #05-01/02, Room 6 Suzhou Industrial Park China 215021	Testing	560	(L) Sept. 2007
No. 389 Gang Ao Road Factory No. 5 Level 5 (East) Waigaoqiao Free Trade Zone, Pudong 200131 Shanghai, China	Testing	6,620	(L) Sept. 2007

*1 With respect to the various leases that expire during fiscal 2006, the Company anticipates that the landlord will offer similar terms on each such lease at renewal and does not believe that material expenses will be incurred.

*2 The premises are subleased to a third party.

*3 The premises were vacant from June 30, 2005 until June 30, 2006. The Company

plans to lease or
sell the property
to a third party
subsequent to
the fiscal year.
No agreement
as to sale has
been entered
into nor has any
purchaser for
the premises
been
specifically
named.

ITEM 3 LEGAL PROCEEDINGS

The Company is, from time to time, the subject of litigation claims and assessments arising out of matters occurring in its normal business operations. In the opinion of management, resolution of these matters will not have a material adverse effect on our financial statements.

There are no material proceedings to which any director, officer or affiliate of the Company, any beneficial owner of more than five percent of the Company's common stock, or any associate of such person is a party that is adverse to the Company or its properties.

There was no litigation relating to environmental action which arose from our operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

**ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the American Stock Exchange under the symbol TRT . The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock as quoted by AMEX:

Quarter Ended	High	Low
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