TAITRON COMPONENTS INC
Form 10-K
March 31, 2010

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number 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
(Address of principal executive offices) (Zip Code)

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

Securities registered under Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Class A common stock, par value $.001 per share	The NASDAQ Capital Stock Market

Securities registered under 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 x

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 x

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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 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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company x

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2009 (based on the closing price of $0.85 per share) was approximately $3,100,000.

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

Class	Outstanding on March 15, 2010
Class A common stock, $.001 par value	4,777,144
Class B common stock, $.001 par value	762,612

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of Form 10-K is incorporated by reference to the Registrant's Proxy Statement for the 2010 Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission.

TAITRON COMPONENTS INCORPORATED
2009 FORM 10-K ANNUAL REPORT
December 31, 2009
INDEX

Index

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which constitute "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. Forward-looking statements represent our expectations or beliefs concerning future events, including the following: any statements regarding future sales, costs and expenses and gross profit percentages; any statements regarding the continuation of historical trends; any statements regarding expected capital expenditures; and any statements regarding the sufficiency of our cash balances and cash generated from operating and financing activities for future liquidity and capital resource needs, and are usually denoted by words or phrases such as "believes," "plans," "should," "expects," "thinks," "projects," "estimates," "anticipates," "will likely result," or similar expressions. W 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.

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

PART I

ITEM 1. BUSINESS.

General

We are a national distributor of brand name electronic components and supplier of original designed and manufactured (ODM) electronic components ("ODM Components"), with our product offerings ranging from discrete semiconductors through small electronic devices. We are incorporated in California, and were originally formed in 1989. We maintain a majority-owned subsidiary in Mexico and three divisions in each of Taiwan, Brazil and China. Prior to 2003, we were primarily focused on the distribution of transistors, diodes and other discrete semiconductors, optoelectronic devices and passive components. Commencing in 2003, we implemented a strategy to expand our business into value-added engineering and turn-key services, focusing on providing existing contract electronic manufacturers (CEMs) and original equipment manufacturers (OEMs) with original design and manufacturing (ODM) services for their multi-year turn-key projects. Our ODM services, and the distribution of products manufactured to specifications developed as a result of our ODM services ("ODM Products") accounted for 12% and 11% of our revenue during our fiscal year ended December 31, 2009 and 2008, respectively.

We have developed a reputation for maintaining in-depth inventories and knowledge of the products in our markets. Our "superstore" strategy consists of carrying a large quantity and variety of components in inventory to meet the rapid delivery requirements of our customers. To differentiate from other distributors, we also offer ODM Components, which are manufactured electronic components based on our own engineering specifications under the private label brands "TCI" or "PSD" through outsourcing. At December 31, 2009, our inventory consisted of over 14,000 different products manufactured by more than 100 different suppliers. In 2009 and 2008, we offered approximately 10 and 25, respectively, that are ODM Products to specifications developed as a result of our ODM services. Our Mexico and Brazil locations are for regional distribution, sales and marketing purposes and our Taiwan and China locations are for supporting inventory sourcing and purchases and coordinating the manufacture of our ODM Components and ODM 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 ODM projects.

Discrete semiconductors are basic electronic building blocks. One or more different types of discrete semiconductors generally are found in the electronic or power supply circuitry of products as diverse as automobiles, televisions, radios, telephones, computers, medical equipment, airplanes, industrial robotics and household appliances. The term “discrete” is used to differentiate those single function semiconductor products which are packaged alone, such as transistors or diodes, from those which are “integrated” into microchips and other integrated circuit devices.

The U.S. electronics distribution industry is composed of national distributors (and international distributors), as well as regional and local distributors. Electronics distributors market numerous products, including active components (such as transistors, microprocessors and integrated circuits), passive components (such as capacitors and resistors) and electromechanical, interconnect and computer products. We focus our distribution efforts almost exclusively on discrete semiconductors, optoelectronic devices and passive components, a small subset of the electronic components market.

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 offshore solution providers (OEMs and CEMs). We also offer commodity integrated circuits (ICs) as an extension of our current discrete semiconductor lines since 2008.

Index

Discrete Semiconductors and Commodity Integrated Circuits

Semiconductors can be broadly divided into two categories - discrete semiconductors, including transistors, diodes, rectifiers and bridges, which are packaged individually to perform a single or limited function, and integrated circuits, such as microprocessors and other "chips," which can contain from a few to several million transistors and other elements in a single package, and usually are designed to perform complex tasks. However, the commodity ICs, a combination of a limited number of discrete and passive components in one package, are far less sophisticated than other integrated circuits and perform simple tasks in circuits similar to discrete components.

While other integrated circuits may garner more public exposure, discrete semiconductors and commodity ICs, the ancestral root of today's complicated integrated circuits, have been a core element of electric equipment for more than 30 years. Discrete semiconductors and commodity ICs are found in most consumer, computer, communication, automotive, instrumentation, medical, industrial and military electrical and electronic applications.

Discrete semiconductors and commodity ICs represent only a small subset of the different types of semiconductors currently available. Discrete semiconductors and commodity ICs are generally more mature products with a more predictable demand, more stable pricing and more constant sourcing than other products in the semiconductor industry, and are thus less susceptible to technological obsolescence than other, more complex, integrated circuits.

Optoelectronic Devices and Passive Components

In addition to discrete semiconductors, we offer optoelectronic devices such as LED's, infrared sensors and opto couplers, along with passive devices, such as resistors, capacitors and inductors which are electronic components manufactured with non-semiconductor materials. We market these optoelectronic devices and passive components through the same channels, as the discrete semiconductors. Sales of these optoelectronic devices and passive components were 44% of our total sales for the years ended December 31, 2009 and 2008. During 2009 and 2008, we purchased $1,400,000 and $2,100,000, respectively, of inventory for these components to facilitate our market for these products.

Electronics Distribution Channels

Electronic component manufacturers, which we refer to as suppliers, sell components directly to CEMs and OEMs, as well as to distributors. The practice among the major suppliers is generally to focus their direct selling efforts on larger volume customers, while utilizing distributors to reach small and medium-sized CEMs and OEMs, as well as smaller distributors. Many suppliers consider electronic distributors to be an integral part of their businesses. As a stocking, marketing and financial intermediary, the distributor relieves its suppliers of a portion of their costs and personnel associated with stocking and selling products, including otherwise sizable investments in finished goods inventories and accounts receivable. By having geographically dispersed selling and delivery capabilities, distributors are often able to serve small and medium-sized companies more effectively and economically than can the supplier.

Electronic distributors are also important to CEMs and OEMs. CEMs and OEMs frequently place orders which are of insufficient size to be placed directly with the suppliers or require delivery schedules not available from suppliers. Distributors offer product availability, selection and more rapid and flexible delivery schedules keyed to meet the requirements of their CEM and OEM customers. Also, they often rely upon electronic distributors to provide timely, knowledgeable access to electronic components.

There is also pressure on the suppliers, CEMs and OEMs to maintain small inventories. Inventory is costly to maintain and thus suppliers desire to ship finished goods as soon as the goods are manufactured. CEMs and OEMs typically demand "just in time" delivery -- receipt of their requirements immediately prior to the time when the components are to be used. Distributors fill this niche.

ODM Service Industry

ODM service providers have experienced rapid change and growth over most of the past decade as an increasing number of OEMs outsourced their manufacturing requirements. In mid-2001, the domestic market of this industry's revenue declined as a result of significant cut backs in its customers' production requirements, which was consistent with the overall global economic downturn. Nonetheless, OEMs have continued to turn to outsourcing in order to reduce product cost; achieve accelerated time-to-market and time-to-volume production; access advanced design and manufacturing technologies; improve inventory management and purchasing power; and reduce their capital investment in manufacturing resources. This enables OEMs to concentrate on what they believe to be their core strengths, such as new product definition, design, marketing and sales. We believe further growth opportunities exist for ODM providers to penetrate the worldwide electronics. By designing private brand products to ODM customers in the US, we are able to expand export sales to overseas CEM customers.

Index

"Superstore" Strategy

Since 1997, we have marketed ourselves as the "discrete components superstore," with an in-depth focus on discrete semiconductors, passive and optoelectronic components and extensive inventory of a wide variety of these products. In creating the "superstore" strategy, we have attempted to develop a more efficient link between suppliers and the small and medium-sized customers which generally do not have direct access to large suppliers and must purchase exclusively through distributors. The primary aspects of our "superstore" strategy include:

Reliable One Stop Shopping: Large Inventory. We believe that our most important competitive advantage is the depth of our inventory. Unlike other distributors who carry only the best-selling discrete components, we offer a large selection of different name-brand discrete semiconductors, optoelectronic devices and passive components. Because of its large inventory, we often can fill a significant portion, or all, of a customer's order from stock. Also, we have been able to fill most of our customers' orders within 24 hours and in compliance with their requested delivery schedules. However, we are also focusing on lowering our inventory levels to balance the weakened demand we have experienced for our products over the past several years. With immediate availability of a wide selection of products and brands, we believe that sales may grow if the market rebounds. See Part II, Item 7 – "Management's Discussion and Analysis - Liquidity and Capital Resources".

Private Brands and Custom Made Parts. To assure the best quality of the product with the most competitive price, we choose the best product lines among existing suppliers and market it under the "TCI" or "PSD" brand. These private label products, or ODM Components, are manufactured according to our specifications under a special contract agreement with outsourcing partners. Custom made parts are also available by following either customer's specification or specially made engineering specification. We believe the ODM Components business is more stable and profitable than the traditional commodity type business. The export sales are driven primarily from private brand products designed in the US by OEMs who later outsource the production to their overseas CEMs.

Support Small Distributors, CEMs and OEMs. We focus our marketing efforts on small contract manufacturers, distributors, CEMs and OEMs who generally do not have direct access to suppliers because of their limited purchasing volumes and, therefore, usually have to purchase their requirements from large distributors, often with substantial markups.

Web Order Entry (WOE) and Customer Drop Shipment (CDS). The demand of web purchasing from buyers around the world is growing rapidly. We have developed a web order entry system for existing customers to access our inventory and to place purchase orders in real time. Not only they will get the sales order and shipment confirmation on the same day, but also be able to assign the drop shipments to their customers directly. We believe this is a new trend to many local distributors and brokers who want to serve their customers more effectively and efficiently without material handling costs.

Master Distributor. We distribute electronic components to other distributors, including nationwide distributors, when their inventory cannot fulfill immediate customer orders. With its higher volume, lower cost inventory, we act as a master distributor for certain of its component suppliers. We estimate that approximately 38% of our sales are a direct result of being a master distributor.

Preferred Distributors. We developed a Preferred Distributor Agreement with certain selective distributor customers to promote a much stronger business relationship. Under these agreements, our preferred distributors are required to provide point of sales (POS) reports which identify the distributor's customers and we provide these preferred distributors with limited price protection, limited stock rotations and return privileges among other benefits. As of the date of this Report, we maintain Preferred Distributor Agreements with 5 selective distributors. We intend to maintain only a few preferred distributors in each geographical region.

Relationships with Suppliers. Stock rotation and price protection privileges are beneficial to distributors because they enable distributors to reduce inventory cost or rotate inventory they are unable to sell, thus reducing the risks and costs associated with over-purchasing or obsolescence. Price protection mitigates the risks of falling prices of components held in inventory. We believe that we have been able to gain a competitive advantage over other distributors by sometimes foregoing or not demanding these privileges (and thus assuming the risk for over-purchasing, product obsolescence and price fluctuations) in order to obtain better pricing.

Index

Vendor managed Inventory (VMI). As a part of our warehouse management system, VMI not only allocates the forecasted inventory by the contract but also guarantees the same day shipment for customers who frequently change their shipping schedule driven by MRP demand. The VMI system is fully operational from the web by VMI managers who could either be our sales representatives, customers or employees.

Service Strategy and ODM Products

We have historically offered our customers a limited range of value–added services such as cutting and forming, quality monitoring and product source tracing. Beginning in 2003, we significantly expanded our value-added services by offering our existing OEM and CEM customers outsourced product design and manufacturing assembly services. Our ODM Products sales were $845,000 and $788,000 in 2009 and 2008, respectively. In order to support our ODM Components and ODM Products, we opened an engineering design center in Shanghai, China in 2005. Strategic allies such as Princeton Technology Corporation, a company controlled by one of our directors, and Teamforce Co. Ltd., both Taiwan–based companies, assist us with this program. As a franchise distributor of Princeton Technology Corporation in the US, we receive engineering support using their products in our ODM projects in order to lower costs and to shorten the design cycle. Our goal is to have 50% component sales and 50% ODM Products sales by the end of 2012.

Offering application engineering service to current customers, we were often involved in reviewing their bill of materials (BOMs) and circuit diagrams. Based upon their credit history, type of the products, production volume, profitability of the industry and circuit schematics, we offer different solutions for quality improvement, additional functions and cost savings through the re-design processes such as component replacement, digital circuit instead of analog circuit, microprocessor instead of logic circuit, integrated circuit instead of discrete components. Our preference is to target low but increasing volume, high margin, stable demand, profitable and specialty products, and financially stable customers who know how to market their products. Our strengths are microprocessor programming, power supply, power management, LED message sign, RF transmission and receiving, encoder and decoder, remote controller, DC motor control and power amplifier. In many cases, we were able to take the advantage of our component distribution capability by using current stock to reduce lead time and choosing the low cost components we currently sell. We depend on our outsourcing partners in mold design, plastic injection, metal stamping, wire hardness and final assembly. We ask between 15% to 30% down payment before accepting a purchasing order and offer customers 30 to 60 days payment terms. All purchasing orders must have a firm delivery schedule under a non-cancelable and non-returnable (NCNR) agreement. To reduce the manufacturing and handling cost, we arrange production of the same model once a year and keep product in our warehouse to be released according to the predetermined schedule.

We utilize our existing inventory management system and established distribution relationships to facilitate the manufacturing and distribution of such products. Our ODM Service complements our "Superstore" strategy and facilitates additional utilization of electronic components for the manufacture of our ODM Products.

Products

Electronic Components – Discrete

We market a wide variety of discrete semiconductors, including rectifiers (or power diodes), diodes, transistors, optoelectronic devices and passive components, to other electronic distributors, contract electronic manufacturers and original equipment manufacturers, who incorporate them in their products. At December 31, 2009, our inventory consisted of over 14,000 different products manufactured by more than 100 different suppliers.

In 2009 and 2008, we purchased electronic component products from approximately 40 different suppliers, including Everlight Electronics Co, Ltd., Samsung Electro-Mechanics Co., Vishay Americas Inc. and Zowie Technology Corporation.

Discrete semiconductors are categorized based on various factors, including current handling capacity, construction, packaging, fabrication and function. The products we sell include:

Rectifiers. Rectifiers generally are utilized in power supply and other high power applications to convert alternating current to direct current. We sell a wide variety of rectifiers, including silicon rectifiers, fast efficient rectifiers, Schottky rectifiers, glass passivated rectifiers, fast efficient glass passivated rectifiers, silicon bridge rectifiers, fast recovery, glass passivated bridge rectifiers and controlled avalanche bridge rectifiers.

Diodes. Diodes are two-lead semiconductors that only allow electric current to flow in one direction. They are used in a variety of electronic applications, including signal processing and direction of current. Diodes sold by us include switching diodes, varistors, germanium diodes and zener diodes.

Transistors. Transistors are used in, among other applications, the processing or amplification of electric current and electronic signals, including data, television, sound and power. We currently sell many types of transistors, including small signal transistors, power transistors and power MOSFETS.

Index

Optoelectronic Devices. Optoelectronic devices are solid state products which provide light displays (such as LEDs), optical links and fiber-optic signal coupling. Applications vary from digital displays on consumer video equipment to fiber optic transmission of computer signals to pattern sensing for regulation, such as is found in automobile cruise controls. Optoelectronic devices generally are not classified as discrete semiconductors or integrated circuits, although they incorporate semiconductor materials.

Passive Components. Passive components are a type of electronic component manufactured with non-semiconductor materials. Passive components such as resistors, capacitors and inductors are used in electronic circuitry but they do not provide amplification. Passive components are basic electronic components found in virtually all electronic products.

The products distributed by us are mature products that are used in a wide range of commercial and industrial products and industries. We believe that a majority of the products we distribute are used in applications where integrated circuits are not viable alternatives. However, we cannot assure you that over time the functions for which our discrete electronic components are used will not eventually be displaced by integrated circuits.

We purchase products from reliable manufacturers who provide warranties for their products that are common in the industry and therefore we conduct limited quality monitoring of our products. We are certified according to the International Standardization Organization (ISO) and we maintain our certificate under the quality standard ISO 9001:2000.

Our distribution of electronic components originates from our 50,000 square-foot facility located in Valencia, California. We utilize a computerized inventory control/tracking system which enables us to quickly access inventory levels and trace product shipments. See Item 2 - "Properties."

ODM Products

ODM Products are custom made and are marketed in specific industries such as wild animal feeders, timers for DC motor, public street light controllers, battery testers, universal remote control devices and battery chargers.

Our distribution of ODM Products originates from our 50,000 square-foot facility located in Valencia, California. We utilize a computerized inventory control/tracking system which enables us to quickly access inventory levels and trace product shipments. See Item 2 - "Properties."

Customers

We market our products to distributors, CEMs and OEMs, and our ODM Services to CEMs and OEMs. We believe that our strategic purchasing policies allow us to provide smaller and medium-sized distributors, CEMs and OEMs competitive prices on discrete electronic components while maintaining an adequate profit margin. As a rule, we do not impose minimum order limitations, which enable customers to avoid the cost of carrying large inventories. See "Business - Strategy."

During 2009, we distributed our discrete electronic component products to approximately 500 customers. Two customers accounted for 13% and 8% of net sales during 2009 and 11% and 8% of net sales during 2008.

In 2009, sales of brand name electronic component products and our ODM Components together represented approximately 87% of our net sales, while sales of our ODM Products represented the remaining 13% of our net sales. Distributors represented approximately 26% and both CEMs and OEMs together represented approximately 61% of our net sales of electronic component products. The remaining 13% of our electronic component sales were made to other exporters and overseas customers.

We historically have not required our distributor customers to provide any point of sale reporting and therefore we do not know the different industries in which our products are sold by our distributor customers. However, based on our sales to CEMs and OEMs, we believe that no particular industry accounted for a majority of the applications of our discrete electronic component products sold in 2009 or 2008.

We offer customers inventory support which includes carrying inventory for their specific needs and providing free samples of our products. We also offer customers a limited range of value-added services, such as lead cutting and bending for specific applications, enhanced quality monitoring and product source tracing, but, to date, these value-added services have not been material to our business or results of operations.

We believe that exceptional customer service and customer relations are key elements of our success, and train our sales force to provide prompt, efficient and courteous service to all customers. See “Business - Sales and Marketing Channels.” We have the ability to ship most orders the same day they are placed and, historically, most of our customers’ orders have been shipped within the requested delivery schedule.

Index

As our customers grow in size, we may lose our larger customers to our own discrete electronic components suppliers and as the electronics distribution industry consolidates, and some of our customers may be acquired by competitors.

Sales and Marketing Channels

As of March 2, 2010, our sales and marketing department consisted of 9 employees. We have centralized our sales order processing and customer service department into our headquarters at Valencia, California. However, we retained outside sales account managers in the states of Massachusetts and Georgia. Our inside sales and customer service departments are divided into regional sales territories throughout North America. The outside sales account managers are also responsible for developing new CEM and OEM accounts, as well as working locally with our independent sales representatives and preferred distributors.

We have sales channels into Central America through our majority-owned subsidiary in Mexico City, Mexico. Central American sales were $667,000 and $1,173,000 in 2009 and 2008, respectively.

We have sales channels into Asia through our branch offices in Shanghai, China and Taipei, Taiwan. Sales to Asian customers were $157,000 and $447,000 in 2009 and 2008, respectively.

We also have sales channels into South America through our branch office in Sao Paulo, Brazil. South American sales were $231,000 and $368,000 in 2009 and 2008, respectively.

Independent sales representatives have played an important role in developing our client base, especially with respect to OEMs. Many OEMs want their suppliers to have a local presence and our network of independent sales representatives is responsive to those needs. Independent sales representatives are primarily responsible for face-to-face meetings with our customers, and for developing new customers. Independent sales representatives are each given responsibility for a specific geographic territory. Typically, sales representatives are only compensated for sales made to CEMs, OEMs and preferred distributors. We believe that this commission policy directs independent sales representatives' attention to those end users with potential to increase market share. Along with our independent sales representatives, we jointly advertise and participate in trade shows. We utilized 7 independent sales representatives during 2009.

We provide customers with catalogs that are specially designed to aid them to quickly find the types and brands of discrete semiconductors and passive and optoelectronic devices that they need.

Suppliers

We believe that it's important to develop and maintain good relationships with our discrete electronic component suppliers. We do not typically enter into long-term supply, distribution or franchise agreements with our suppliers, but instead cultivate strong working relationships with each of our suppliers. However, we have entered into franchise agreements with some of our suppliers. The franchise agreements have terms from one to two years with inventory and price protection programs.

In order to facilitate good relationships with our suppliers, we typically will carry a complete line of each supplier's discrete products. We also support our suppliers by increasing their visibility through advertising and participation in regional and national trade shows. We generally order components far in advance, helping suppliers plan their production. Outstanding commitments to purchase inventory from suppliers as of March 2, 2010 were approximately $1,650,000. In addition, we have distribution agreements with certain suppliers which provide stock-rotation, price protection and stock buy back terms.

In 2009, we purchased components from approximately 37 different suppliers, including Samsung Electro-Mechanics Co., Everlight Electronics Co, Ltd., Princeton Technology, Vishay Americas Inc. and Zowie Technology Corporation. While we are continually attempting to build relationships with suppliers and from time to time add new suppliers in an attempt to provide our customers with a better product mix, the possibility exists that our relationship with a supplier may be terminated.

For the year ended December 31, 2009, the following name brands, Samsung Electro-Mechanics Co., Princeton Technology, Everlight Electronics Co, Ltd. and Vishay Americas Inc. accounted for approximately 36% of our net purchases for name brand distributed components. However, we do not regard any one supplier as essential to our operations, since equivalent replacements for most of the products we market are either available from one or more of our other suppliers or are available from various other sources at competitive prices. We believe that, even if we lose a direct relationship with a supplier, there exist alternative sources for another supplier’s products.

Index

In connection with our ODM services, we have built special partnership agreements with few selected system integration companies in China. These agreements ensure the quality of the products and services and also provide a warranty on the finished products. Most of the projects involve multiple years of cooperation among components suppliers, overseas partners and the end customers in the US, and therefore, increase business stability and reduce the financial risk of excess inventory.

Competition

We operate our discrete electronic components business in a highly competitive environment and face competition from numerous local, regional and national distributors (both in purchasing and selling inventory) and electronic component manufacturers, including some of our own suppliers. Many of our competitors are more established and have greater name recognition and financial and marketing resources than us. We believe that competition in the electronic industry is based on breadth of product lines, product availability, choice of brand name, customer service, response time, competitive pricing and product knowledge, as well as value-added services. We believe we compete effectively with respect to breadth and availability of inventory, response time, pricing and product knowledge. Generally, large component manufacturers and large distributors do not focus their internal selling efforts on small and medium-sized OEMs and distributors, which constitute the vast majority of our customers. However, should our customers increase in size, component manufacturers may find it cost effective to focus direct sales efforts on those customers, which could result in the loss of customers or decreased selling prices.

The ODM services we provide are available from many independent sources as well as from the in-house manufacturing capabilities of current and potential customers. Our competitors may be more established in the industry and have substantially greater financial, manufacturing, or marketing resources than we do. We believe that the principal competitive factors in our targeted markets are engineering capabilities, product quality, flexibility, cost and timeliness in responding to design and schedule changes, reliability in meeting product delivery schedules, pricing, technological sophistication and geographic location. In addition, in recent years, original design manufacturers that provide design and manufacturing services to OEMs have significantly increased their share of outsourced manufacturing services provided to OEMs in the consumer electronic product market. Competition from ODMs may increase if our business in these markets grows or if ODMs expand further into these markets.

Management Information Systems

We have made a significant investment in computer hardware, software and personnel. The Management Information Systems (MIS) department is responsible for software and hardware upgrades, maintenance of current software and related databases, and designing custom systems. We believe that our MIS department is crucial to our success and believe in continually upgrading our hardware and software. We also developed a vendor management inventory software program which allows participating customers to access and manage their own inventory through the internet. The web site also provides users with other current information about us.

Warehouse Management System

We utilize a wireless, fully bar-coded warehouse tracking system that greatly enhances the processing speed, accuracy of product quantity and location control within the warehouse. It also reduces potential errors and accelerates the delivery of components to our customers. We continuously improve our warehouse management system with custom programming features.

Foreign Trade Regulation

A large portion of the products we distribute are manufactured in Asia, including Taiwan, Hong Kong, Japan, China, South Korea, Thailand and the Philippines. The purchase of goods manufactured in foreign countries is subject to a number of risks, including economic disruptions, transportation delays and interruptions, foreign exchange rate fluctuations, imposition of tariffs and import and export controls, and changes in governmental policies, any of which could have a material adverse effect on our business and results of operations.

Sales to Asian customers were 2.8% and 6.2% of our total sales in 2009 and 2008, respectively.

From time to time, protectionist pressures have influenced U.S. trade policy concerning the imposition of significant duties or other trade restrictions upon foreign products. We cannot predict whether additional U.S. customs quotas, duties, taxes or other charges or restrictions will be imposed upon the importation of foreign components in the future or what effect any of these actions would have on our business, financial condition or results of operations.

The ability to remain competitive with respect to the pricing of imported components could be adversely affected by increases in tariffs or duties, changes in trade treaties, strikes in air or sea transportation, and possible future U.S. legislation with respect to pricing and import quotas on products from foreign countries. For example, it is possible that political or economic developments in China, or with respect to the United States' relationship with China, could have an adverse effect on our business. Our ability to remain competitive also could be affected by other governmental actions related to, among other things, anti-dumping legislation and international currency fluctuations. While we do not believe that any of these factors adversely impact our business at present, we cannot assure you that these factors will not materially adversely affect us in the future. Any significant disruption in the delivery of merchandise from our suppliers, substantially all of whom are foreign, could have a material adverse impact on our business and results of operations.

Index

Employees

As of March 2, 2010, our company consisted of 24 employees, all of whom are employed on a full time basis. None of our employees are covered by a collective bargaining agreement and we consider our relations with employees to be good.

Website Availability of Our Reports Filed with the Securities and Exchange Commission

We maintain a website (http://www.taitroncomponents.com), but we are not including the information contained on this website as a part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through this website our annual reports, quarterly reports and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after it electronically files that material with, or furnish the material to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS. Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS. Not applicable.

ITEM 2. PROPERTIES.

We own our headquarters and main distribution facility which is located in approximately 50,000 square feet at 28040 West Harrison Parkway, Valencia, California. We believe this facility is adequately covered by insurance (except earthquake coverage).

We also have the following properties: (1) we own 4,500 square feet of office space in Shanghai, China - this property is being used as Company’s project design and engineering center and partially as rental property for lease to others, (2) we own 15,000 square feet of office and distribution space through our subsidiary in Mexico, (3) we own 2,500 square feet of office space in Taipei, Taiwan - currently leased to an unrelated tenant, and (4) we lease 350 square feet of office space for sales and marketing functions in Brazil, the lease expiring annually each year in May. We believe these existing facilities are adequate for the foreseeable future and have no plans to renovate or expand them.

Index

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of business, we may become involved in legal proceedings from time to time. As of the date of this report, we are not aware of any material pending legal proceedings.

ITEM 4. Reserved.

PART II

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

Market Information. Our Class A common stock is traded on the Nasdaq Smallcap Market under the symbol "TAIT". The following table sets forth, for the periods indicated, the high and low closing sale prices for our common stock, as reported by Nasdaq:

	High	Low
Fiscal Year Ended December 31, 2008:		
First Quarter	$ 1.87	$ 1.33
Second Quarter	1.54	1.02
Third Quarter	1.02	0.78
Fourth Quarter	0.89	0.56
Fiscal Year Ended December 31, 2009:		
First Quarter	$ 1.04	$ 0.71
Second Quarter	0.96	0.70
Third Quarter	1.39	0.76
Fourth Quarter	1.45	1.09
Year Ended December 31, 2010:		
First Quarter (through March 2, 2010)	$ 1.60	$ 1.30

On March 2, 2010, the last sale price of the Class A common stock as reported by Nasdaq was $1.60 per share.

Holders. As of March 2, 2010, there were 38 registered holders of our Class A common stock (not including those holders whose shares of common stock are held in street name) and one holder of our Class B common stock, which are not traded.

Dividends and Dividend Policy. The payment of future cash dividends under the policy is subject to the continuing determination that the policy remains in the best interest of our shareholders and complies with laws and any agreements we may enter into applicable to the declaration and payment of cash dividends. The maintenance of the dividend policy will depend on factors that we deem relevant, including our cash earnings, financial condition and cash requirements in any given year. Our ability to declare dividends could be affected by a variety of factors affecting cash flow, including required capital expenditures, increased or unanticipated expenses, additional borrowings and future issuances of securities. See "Management's Discussion and Analysis - Results of Operations; Liquidity and Capital Resources."

Index

Securities authorized for issuance under equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	395,500	$ 1.75	839,500
Equity compensation plans not approved by security holders	-	-	-
Total	395,500	$ 1.75	839,500

Unregistered Sales of Equity Securities. None.

Issuer Purchases of Equity Securities. None.

ITEM 6. SELECTED FINANCIAL DATA.Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the consolidated financial statements, including the related notes, appearing in Item 8 of this Annual Report. Also, several of the matters discussed in this document contain forward-looking statements 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 si 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.

Critical Accounting Policies and Estimates

Use of Estimates – We have 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 financial statements included in Item 8 of this report in accordance with generally accepted accounting principles. 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 – We recognize revenue when we have evidence of an arrangement, a determinable fee, and when collection is considered to be probable and products are delivered. This occurs 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 years ended December 31, 2009 and 2008 aggregated $24,000 and $148,000, respectively. The allowance for sales returns and doubtful accounts at December 31, 2009 aggregated $89,000. We review the actual sales returns and bad debts for our customers and establish an estimate of future returns and allowance for doubtful accounts.

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 $12,307,000 at December 31, 2009, which is presented net of valuation allowances of $3,615,000. 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. 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.

Index

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 ("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 have 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 – We review the nature of each component of our deferred income taxes for reasonableness. If determined that it is more likely than not that we will not realize all or part of our net deferred tax assets in the future, we record a valuation allowance against the deferred tax assets, which allowance will be charged to income tax expense in the period of such determination. We also consider the scheduled reversal of deferred tax liabilities, tax planning strategies and future taxable income in assessing the realizability of deferred tax assets. We also consider the weight of both positive and negative evidence in determining whether a valuation allowance is needed. However, due to the continued net losses, we have fully reserved a $1,804,000 allowance against our net deferred tax assets.

As a result of the implementation of certain provisions of ASC 740, Income Taxes, (formerly FIN 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109), ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC 740 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 ASC 740 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. We have identified the U.S. federal and California as our "major" tax jurisdictions. Generally, we remain subject to Internal Revenue Service examination of our 2006 through 2008 U.S. federal income tax returns, and remain subject to California Franchise Tax Board examination of our 2005 through 2008 California Franchise Tax Returns. However, we have certain tax attribute 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.

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. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes.

Recent Accounting Policies

Please see Note 1 of our financial statements that describe the impact, if any, from the adoption of Recent Accounting Pronouncements.

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 is 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 three years we have developed our ODM service capabilities and added products developed through partnership agreements with offshore solution providers (OEMs and CEMs). We now offer commodity Integrated Circuits (ICs) as an extension of current discrete semiconductor lines in 2007.

Our core strategy still includes maintaining a substantial inventory of electronic components that allows us to fill customer orders immediately from stock held in inventory. However, since demand remained weak throughout 2008, we continue to focus on lowering our inventory balances and changing our product mix. As a result, net inventory levels decreased throughout the year by $1,019,000, including a non-cash provision of approximately $600,000 during 2009 to increase our inventory reserves for price declines, non-RoHS compliant components and slow-moving inventory. This provision is mainly used to increase our inventory reserve to account for slow moving and excess inventory.

Index

In accordance with generally accepted accounting principles, we have classified inventory as a current asset in our December 31, 2009, consolidated financial statements representing approximately 77% 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, the relative strength of the U.S. dollar, provisions for inventory reserves, our ability to purchase inventory at favorable prices and our sales product mix.

Results of Operations

The Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Net sales were $5,540,000 and $7,197,000 in 2009 and 2008, respectively, representing a decrease of $1,657,000 or 23%. The decrease in net sales was primarily due to a domestic decline in demand for our component products.

Gross margins were $1,365,000 and $1,901,000 in 2009 and 2008, respectively, which represented 24.6% and 26.4% of net sales for those periods. The decrease of $536,000 was primarily attributed to the decrease of sales.

Selling, general and administrative expenses were $2,441,000 and $2,712,000 in 2009 and 2008, respectively, which represented 44% and 37.7% of net sales for those periods. The decrease of $271,000 was primarily due to decreases in salaries and benefits expenses by $138,000, depreciation expense by $44,000, trade commissions by $25,000 and professional fees by $23,000.

Operating losses were $1,076,000 and $811,000 in 2009 and 2008, respectively, which represented 19.4% and 11.3% of net sales for those periods. Operating losses increased primarily as a result of lower gross margins discussed above related to our provision for inventory reserves.

Net interest expense was $9,000 and $1,000 for 2009 and 2008, respectively. The increase was due to higher debt levels during the year.

Income tax provision was $2,000 and $3,000 in 2009 and 2008, respectively. Our tax provision is primarily based upon our state income tax liabilities.

We incurred net losses of $929,000 and $786,000 in 2009 and 2008, respectively, which represented 16.8% and 10.9% of net sales for those periods. The losses are primarily due to lower margins discussed above and related to provisions for our inventory reserves.

Liquidity and Capital Resources

We historically have satisfied our liquidity requirements through cash generated from operations, short-term commercial loans, subordinated promissory notes and issuance of equity securities. A summary of our cash flows resulting from our operating, investing and financing activities for the years ended December 31, 2009 and 2008 were as follows:

	Year ended December 31,	
	2009	2008

Operating activities	$ 1,276,000	$ 479,000
Investing activities	(77,000)	(12,000)
Financing activities	(197,000)	136,000

Cash flows provided by operating activities increased to $1,276,000 during 2009, as compared to $479,000 in the prior year. The increase in cash provided by operations was primarily attributed to accounts receivable and inventory decreasing by $304,000 and $1,619,000, respectively, during 2009, as compared to decreasing by $338,000 and $896,000, respectively, during 2008.

Cash flows used in investing activities increased to $77,000 during 2009, as compared to $12,000 in the prior year. Our 2009 investing outflows primarily came from acquisitions of property and equipment by $45,000, compared with $32,000 in 2008.

Index

Cash flows used in financing activities were $197,000 in 2009 as compared to provided by $136,000 used in the prior year.

We believe that funds generated from operations, existing cash balances and short-term loans, 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 asset-based lending on accounts receivables or issue debt or equity securities. Otherwise, we may need to liquidate assets to generate the necessary working capital.

Inventory is included and classified as a current asset. As of December 31, 2009, inventory represented approximately 77% of current assets and 57% of total assets. However, it is likely to take over one year for the inventory to turn and therefore is likely not to be saleable within a one-year time frame. Hence, inventory would not be as readily marketable or liquid as other items included in current assets, such as cash.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements that have, or are likely to have, a current or future material effect on our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Index

Report Of Independent Registered Public Accounting Firm

The Board of Directors and ShareholdersTaitron Components Incorporated:

We have audited the accompanying consolidated balance sheets of Taitron Components Incorporated (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taitron Components Incorporated as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the years in the periods ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ ANTON & CHIA, LLP

Irvine, California
March 31, 2010

Index

TAITRON COMPONENTS INCORPORATED
Consolidated Balance Sheets

	December 31, 2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$2,768,000	$1,762,000
Restricted cash (Note 2)	100,000	-
Trade accounts receivable, net	621,000	964,000
Inventory, net	12,307,000	13,926,000
Prepaid expenses and other current assets (Note 3)	245,000	565,000
Total current assets	16,041,000	17,217,000
Property and equipment, net (Note 4)	5,135,000	5,316,000
Other assets (Note 5)	244,000	236,000
Total assets	$21,420,000	$22,769,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$615,000	$822,000
Accrued liabilities	303,000	316,000
Current portion of long-term debt (Note 6)	-	89,000
Total current liabilities	918,000	1,227,000
Long-term debt, less current portion (Note 6)	1,000,000	832,000
Total liabilities	1,918,000	2,059,000
Commitments and contingencies (Notes 6, 8 and 12)		
Minority interest in subsidiary	219,000	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; 4,777,144 shares issued and outstanding at December 31, 2009 and 2008.	5,000	5,000
Class B common stock, $.001 par value. Authorized, issued and outstanding 762,612 shares	1,000	1,000
Additional paid-in capital	10,594,000	10,569,000
Accumulated other comprehensive income	96,000	92,000
Retained earnings	8,587,000	9,792,000
Total shareholders' equity	19,283,000	20,459,000
Total liabilities and shareholders' equity	$21,420,000	$22,769,000

See accompanying notes to consolidated financial statements.

Index

TAITRON COMPONENTS INCORPORATED
Consolidated Statements of Operations

	Year ended December 31, 2009	2008
Net sales	$5,540,000	$7,197,000
Cost of goods sold	4,175,000	5,296,000
Gross profit	1,365,000	1,901,000
Selling, general and administrative expenses	2,441,000	2,712,000
Operating loss	(1,076,000)	(811,000)
Interest expense, net	(9,000)	(1,000)
Other income, net	158,000	29,000
Loss before income taxes	(927,000)	(783,000)
Income tax provision	(2,000)	(3,000)
Net loss	$(929,000)	$(786,000)
Other comprehensive income:		
Foreign currency translation adjustment	4,000	48,000
Comprehensive loss	$(925,000)	$(738,000)
Net loss per share: Basic & Diluted	$(0.17)	$(0.14)
Weighted average common shares outstanding: Basic & Diluted	5,539,756	5,539,756

See accompanying notes to consolidated financial statements.

Index

TAITRON COMPONENTS INCORPORATED
Consolidated Statements of Shareholders' Equity
Two years ended December 31, 2009

	Class A common stock		Class B common stock		Additional	Accumulated Other		Total
	Shares	Amount	Shares	Amount	Paid-in capital	Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
Balances at December 31, 2007	4,775,144	$ 5,000	762,612	$ 1,000	$ 10,544,000	$ 44,000	$ 10,855,000	$ 21,449,000
Issuances of common stock	2,000	-	-	-	2,000	-	-	2,000
Amortization of stock based compensation	-	-	-	-	23,000	-	-	23,000
Dividend payments	-	-	-	-	-	-	(277,000)	(277,000)
Comprehensive loss:								
Foreign currency translation adjustment	-	-	-	-	-	48,000	-	48,000
Net loss	-	-	-	-	-	-	(786,000)	(786,000)
Comprehensive loss	-	-	-	-	-	-	-	(738,000)
Balances at December 31, 2008	4,777,144	$ 5,000	762,612	$ 1,000	$ 10,569,000	$ 92,000	$ 9,792,000	$ 20,459,000
Amortization of stock based compensation	-	-	-	-	25,000	-	-	25,000
Dividend payments	-	-	-	-	-	-	(276,000)	(276,000)
Comprehensive loss:								
Foreign currency translation adjustment	-	-	-	-	-	4,000	-	4,000

Net loss	-	-	-	-	-	-	(929,000)	(929,000)
Comprehensive loss	-	-	-	-	-	-	-	(925,000)
Balances at December 31, 2009	4,777,144	$ 5,000	762,612	$ 1,000	$ 10,594,000	$ 96,000	$ 8,587,000	$ 19,283,000

See accompanying notes to consolidated financial statements.

Index

TAITRON COMPONENTS INCORPORATED
Consolidated Statements of Cash Flows

	Year ended December 31, 2009	2008
Cash flows from operating activities:		
Net loss	$(929,000)	$(786,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	226,000	248,000
Provision for inventory reserve	600,000	600,000
Provision for sales returns and doubtful accounts	39,000	148,000
Stock based compensation	25,000	23,000
Changes in operating assets and liabilities:		
Restricted cash	(100,000)	-
Trade accounts receivable	304,000	338,000
Inventory	1,019,000	296,000
Prepaid expenses and other current assets	320,000	(391,000)
Other assets	(8,000)	477,000
Trade accounts payable	(207,000)	(496,000)
Accrued liabilities	(13,000)	22,000
Total adjustments	2,205,000	1,265,000
Net cash provided by operating activities	1,276,000	479,000
Cash flows from investing activities:		
Acquisition of property and equipment	(45,000)	(32,000)
Minority interest in subsidiary	(32,000)	20,000
Net cash used in investing activities	(77,000)	(12,000)
Cash flows from financing activities:		
Borrowing on notes payable	500,000	500,000
(Payments) on notes payable	(421,000)	(89,000)
Dividend payments	(276,000)	(277,000)
Exercise of Class A common stock options	-	2,000
Net cash (used in) provided by financing activities	(197,000)	136,000
Impact of exchange rates on cash	4,000	48,000
Net increase in cash and cash equivalents	1,006,000	651,000
Cash and cash equivalents, beginning of year	1,762,000	1,111,000
Cash and cash equivalents, end of year	$2,768,000	$1,762,000
Supplemental disclosures of cash flow information:		
Cash paid for interest	$31,000	$41,000
Cash paid for income taxes, net	$1,000	$1,000

See accompanying notes to consolidated financial statements.

TAITRON COMPONENTS INCORPORATED
Notes to Consolidated Financial Statements

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as promulgated in the United States of America.

In July 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 105-10, formerly Statement of Financial Accounting Standards ("SFAS") No. 168, The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, which became the single source of authoritative GAAP recognized by the FASB. ASC 105-10 does not change current U.S. GAAP, but on the effective date, the FASB ASC superseded all then existing non-SEC accounting and reporting standards. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted ASC 105-10 during the year ended December 31, 2009 and revised its referencing of GAAP accounting standards in these financial statements to reflect the new standards.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its various wholly-owned subsidiaries and its 60% majority-owned subsidiary, Taitron Components Mexico, SA de CV. All significant intercompany transactions and balances have been eliminated in consolidation. The ownership interests of the minority investors in Taitron Components Mexico, SA de CV are recorded in the accompanying consolidated balance sheet as minority interests, which have a balance of $219,000 as of December 31, 2009.

Concentration of Risk

A significant number of the products distributed by the Company are manufactured in Taiwan, Hong Kong, China, South Korea and the Philippines. The purchase of goods manufactured in foreign countries is subject to a number of risks, including economic disruptions, transportation delays and interruptions, foreign exchange rate fluctuations, imposition of tariffs and import and export controls and changes in governmental policies, any of which could have a material adverse effect on the Company's business and results of operations.

The ability to remain competitive with respect to the pricing of imported components could be adversely affected by increases in tariffs or duties, changes in trade treaties, strikes in air or sea transportation, and possible future U.S. legislation with respect to pricing and import quotas on products from foreign countries. For example, it is possible that political or economic developments in China, or with respect to the relationship of the United States with China, could have an adverse effect on the Company's business. The Company's ability to remain competitive could also be affected by other government actions related to, among other things, anti-dumping legislation and international currency fluctuations. While the Company does not believe that any of these factors adversely impact its business at present, the Company cannot provide assurance that these factors will not materially adversely affect the Company in the future. Any significant disruption in the delivery of merchandise from the Company's suppliers, substantially all of whom are foreign, could also have a material adverse impact on the Company's business and results of operations. Management estimates that over 90% of the Company's products were produced in Asia.

Samsung Electro-Mechanics Co. and Everlight Electronics Co, Ltd., together accounted for approximately 22% and 27% of all Taitron's net purchases for fiscal years 2009 and 2008, respectively. However, Taitron does not regard any one supplier as essential to its operations, since equivalent replacements for most of the products Taitron markets are either available from one or more of Taitron's other suppliers or are available from various other sources at competitive prices. Taitron believes that, even if it loses its direct relationship with a supplier, there exist alternative sources for a supplier's products.

For the year ended December 31, 2009 two customers accounted for 13% and 8% of our net sales. For the year ended December 31, 2008 two customers accounted for 11% and 8% of our net sales. As of December 31, 2009, two customers accounted for 19.6% and 8.6% of our trade receivables. As of December 31, 2008, two customers accounted for 19% and 17% of our trade receivables.

Index

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents and maintains cash balances in multiple accounts at multiple banks. Accounts at our primary domestic financial institution are non-interest-bearing transaction accounts and as such, are 100% insured by the Federal Deposit Insurance Corporation (“FDIC”) under the FDIC's Transaction Account Guarantee Program, as of the early of the maturity of the financial institution’s obligation and June 30, 2012. Our cash held in a money market investment account exceeds insurance limits. Our foreign accounts are not insured, however, management does not believe that there is a significant credit risk with respect to the non-performance of these institutions based on their respective creditworthiness and liquidity.

Revenue Recognition

The Company will recognize revenue on arrangements in accordance with FASB ASC No. 605, “Revenue Recognition”. In all cases, revenue is recognized when it has evidence of an arrangement, a determinable fee, and when collection is considered to be probable and products are delivered. This occurs 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 management’s estimates of future returns. Sales returns for the years ended December 31, 2009 and 2008 aggregated $24,000 and $148,000, respectively.

Allowance for Sales Returns and Doubtful Accounts

On a case-by-case basis, the Company accepts returns of products from its 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. The Company will, on a case-by-case basis, accept returns of products upon payment of a restocking fee, which is generally 10% to 30% of the net sales price. The Company will not accept returns of any products that were special-ordered by a customer or that otherwise are not generally included in our inventory. The allowance for sales returns and doubtful accounts at December 31, 2009 and 2008 aggregated $89,000 and $74,000, respectively.

Inventory

Inventory, consisting principally of products held for resale, is stated at the lower of cost, using the first-in, first-out method, or market. The amount presented in the accompanying consolidated balance sheet is net of valuation allowances of $3,615,000 and $3,127,000 at December 31, 2009 and 2008, respectively. The Company uses a systematic methodology that includes regular evaluations of inventory to identify costs in excess of the lower of cost or market and slow-moving inventory.

Property and Equipment