

TAITRON COMPONENTS INC  
Form 10-K  
April 01, 2019

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

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

For the fiscal year ended December 31, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-25844

**TAITRON COMPONENTS INCORPORATED**

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of incorporation or organization)

**95-4249240**

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

**28040 West Harrison Parkway, Valencia, California**

(Address of principal executive offices)

**91355**

(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A common stock, \$.001 par value	NASDAQ Capital Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).                      Yes    No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "larger accelerated filer," "accelerated filer" and "smaller reporting company", "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant, based upon the closing price of the common stock as reported by The Nasdaq Capital Market, was approximately \$5.1 million as of the most recently completed second fiscal quarter ended June 30, 2018.

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

<u>Class</u>	<u>Outstanding on March 15, 2019</u>
Class A common stock, \$.001 par value	4,937,235
Class B common stock, \$.001 par value	762,612

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement pursuant to Regulation 14A in connection with the 2018 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K. The proxy statement will be filed with the SEC not later than 120 days after the registrant's fiscal year ended December 31, 2018.

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**TAITRON COMPONENTS INCORPORATED**  
**2017 FORM 10-K ANNUAL REPORT**  
**December 31, 2018**  
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**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. We warn 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-owned subsidiary, unless the context otherwise requires.

**PART I**

**ITEM 1. BUSINESS.**

**General**

We are primarily a supplier of original designed and manufactured (ODM) products that include value-added engineering and turn-key solutions. We focus on providing original equipment manufacturers (OEMs) and contract electronic manufacturers (CEMs) with ODM products for their multi-year turn-key projects (“ODM Projects”) and ODM electronic components (“ODM Components”). Our product offerings range from discrete semiconductors through small electronic devices. We also distribute brand name electronic components with a vast inventory available on hand. We are incorporated in California and were originally formed in 1989. We maintain a majority-owned subsidiary in Mexico (our Mexico subsidiary sales and distribution operations closed in May 2013) and two divisions in each of Taiwan and China.

Our Taiwan and China locations provide support for inventory sourcing, purchases and coordinating the manufacture of our ODM Projects and ODM Components (collectively we refer to as “ODM Products”). In 2018 and 2017, we

offered approximately 29 and 22, respectively, different ODM Products that are manufactured to specifications developed as a result of our 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 manufacturer partners, preparing samples, monitoring the quality of shipments, performing failure analysis reports, and designing circuits with partners for ODM Projects.

We have also developed a reputation for stocking a large selection of electronic component inventories to meet the rapid delivery requirements of our customers. At December 31, 2018, our inventory consisted of approximately 12,000 different products manufactured by more than 100 different suppliers. However, our core strategy has shifted to primarily focus on our ODM Products that require custom products designed for specific applications to OEM customers, and away from actively marketing our superstore strategy of maintaining a vast quantity of electronic components to fill customer orders immediately from available stock held in inventory.

### **ODM Projects**

Our ODM Projects are custom made and are marketed in specific industries such as: wild animal feeders, timers for DC motors, public street light controllers, LED modules for swimming pools and water fountain lights, LED headlamps for vacuum cleaners, battery testers, universal remote-control devices and battery chargers.

Our distribution of ODM Projects 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."

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### **ODM Product Industry**

ODM product providers have experienced rapid change and growth as an increasing number of OEMs outsource their manufacturing requirements. 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 product providers to penetrate the worldwide market. By designing private brand products to OEM customers in the US, we are able to expand export sales to overseas CEM customers.

### **ODM Products Strategy**

We offer value-added ODM products to our existing OEM and CEM customers utilizing our engineering design center in Shanghai, China. The sales of our ODM Products were \$7,599,000 and \$6,926,000 in 2018 and 2017, respectively. Strategic allies such as Teamforce Co. Ltd., Grand Shine Management (see Part II, Item 8: Note 4 – Other Assets) and Zowie Technology Corporation (see Part II, Item 8: Note 4 – Other Assets) provide us with engineering support services in our ODM projects in order to lower costs and to shorten the design cycle.

By offering application engineering service to current customers, we are often involved in reviewing their bill of materials (BOMs) and circuit diagrams. Based upon their credit history, type of products, production volume, profitability of the industry and circuit schematics, we offer different solutions for quality improvement, additional functions and cost savings throughout 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 have been able to take 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 purchase 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.

### **“Superstore” Marketing Strategy Change**

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. Our “superstore” strategy consists of carrying a large quantity and variety of components in inventory to meet the rapid delivery requirements of our customers. Recently, our core strategy has shifted to primarily focus on our ODM Products that require custom services designed for specific applications to OEM customers, and away from actively marketing our “superstore” strategy of maintaining a vast quantity of electronic components to fill customer orders immediately from available stock held in inventory. We will continue offering our existing wide variety of components for resale, but these products will be more passively marketed and distributed online for clearance through our website shopping portal, instead of actively through traditional sales agents and distributors.

### **Customers**

We market our ODM products to OEMs and our electronic components inventory to distributors, OEMs and CEMs. During each of 2018 and 2017, we distributed our products to approximately 300 customers, however our two largest customers combined accounted for approximately 57% (individually by approximately 48% and 9%) of net sales during 2018 and approximately 51% (individually by approximately 38% and 13%) during 2017.

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.



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### **Sales and Marketing Channels**

As of March 15, 2019, our sales and marketing department consisted of 8 employees. We have centralized our sales order processing and customer service department into our headquarters at Valencia, California.

As a result of our marketing strategy change to focus primarily on ODM Products and away from our superstore inventory, we expect our remaining components inventory will be more passively marketed and distributed online for clearance through our internet sales portal, however at potentially lower rates due to the pricing pressures normally maybe attributed with online shopping.

### **Suppliers**

In connection with our ODM products, we have built special partnership agreements with a few selected system integration companies in China. These agreements ensure the quality of the products and services and also provide a warranty on our 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.

We believe that it's important to develop and maintain good relationships with our discrete electronic component suppliers, since we do not have long-term supply, distribution or franchise agreements with any of our suppliers. Instead, we cultivate strong working relationships with each of our suppliers.

### **Competition**

The ODM products 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 our 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.

We operate our discrete electronic components business online 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.

### **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 perpetual inventory 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.

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Sales to Asian customers were 9.8% and 10.2% of our total sales in 2018 and 2017, 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.

**Employees**

As of March 15, 2019, we had 17 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 located in Valencia, California. This facility is approximately 50,000 total square feet, of which 40,000 square feet is warehouse space and 10,000 square feet is general office space. We also sublease approximately 3,500 square feet of our unused office space as rental property to others. 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 – our use of this property ceased in May 2013 (see Part II, Item 8: Note 1 – Summary of Significant Accounting Policies) and is actively marketed for sale and (3) we own 2,500 square feet of office space in Taipei, Taiwan. We believe these existing facilities are adequate for the foreseeable future and have no plans to renovate or expand them.

**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. MINE SAFETY DISCLOSURES.** Not applicable.

Table of Contents**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 The Nasdaq Capital Market under the symbol "TAIT".

**Number of Stockholders of Record.** As of March 15, 2019, there were 20 holders of record of our Class A common stock and 1 holder of record of our Class B common stock, which is not traded. We are unable to estimate the total number of stockholders represented by these Class A holders of record, because many these shares are held by brokers on behalf of stockholders.

**Dividends and Dividend Policy.** The declaration and payment of future dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and other factors the Board of Directors deems relevant. We are not aware of any contractual or similar restrictions that limit our ability to pay dividends, currently or in the future. See "Management's Discussion and Analysis - Results of Operations; Liquidity and Capital Resources."

**Securities authorized for issuance under equity compensation plans.****Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>

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Equity compensation plans approved by security holders	453,000	\$ 1.35	785,000
Equity compensation plans not approved by security holders	-	-	-
<b>Total</b>	<b>453,000</b>	<b>\$ 1.35</b>	<b>785,000</b>

**Recent Sales of Unregistered Sales of Equity Securities.** None.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers.** None.

**ITEM 6. SELECTED FINANCIAL DATA.** Not Applicable.

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**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 on Form 10-K. 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 similar expressions. We wish to caution readers that all forward-looking statements are necessarily speculative and not to place undue reliance on forward-looking statements, which speak only as of the date made, and to advise readers that actual results could vary due to a variety of risks and uncertainties.

**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 Annual Report on Form 10-K in accordance with generally accepted accounting principles in the United States. These estimates have a significant impact on our valuation and reserve accounts relating to the allowance for sales returns and allowances, doubtful accounts, inventory reserves and deferred income taxes. Actual results could differ from these estimates.

Revenue Recognition – Revenue is recognized at the point at which control of the underlying products are transferred to the customer. Satisfaction of our performance obligations occur upon the transfer of control of products, either from our facilities or directly from suppliers to customers. We consider customer purchase orders to be the contracts with a customer. All revenue is generated from contracts with customers. 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, 2018 and 2017 aggregated \$12,000 and \$190,000, respectively. The allowance for sales returns and allowances and doubtful accounts at December 31, 2018 and 2017 aggregated \$38,000 and \$40,000, respectively. We review the actual sales returns and bad debts for our customers and establish an estimate of future returns and an 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 net realizable value. We had inventory balances in the amount of \$4,597,000 and \$4,990,000 at December 31, 2018 and 2017, respectively, which is presented net of valuation allowances of \$7,189,000 and \$7,848,000 at December 31, 2018 and 2017, respectively. We evaluate inventories to identify excess, high-cost, slow-moving or other factors rendering inventories as unmarketable at normal profit margins. Due to the large number of transactions and the complexity of managing and maintaining a large inventory of product offerings,

estimates are made regarding adjustments to the cost of inventories. 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.

Deferred Taxes – 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 if deferred tax assets could be realized. We also consider the weight of both positive and negative evidence in determining whether a valuation allowance is needed. However, due to a period of consistent losses through December 31, 2016, we have fully reserved a \$2,722,000 and \$3,018,000 allowance against our net deferred tax assets at December 31, 2018 and 2017, respectively.



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**Overview**

We are primarily focused on supplying ODM products for our OEM customer's multi-year turn-key projects. We also distribute discrete semiconductors, commodity Integrated Circuits (ICs), optoelectronic devices and passive components to other electronic distributors, CEMs and OEMs, who incorporate them in their products.

Our core strategy has shifted to primarily focus on higher margin ODM Projects that require custom products designed for specific applications to OEM customers, and away from actively marketing our superstore strategy of maintaining a vast quantity of electronic components to fill customer orders immediately from available stock held in inventory. As a result, we expect our components inventory will be more passively marketed and distributed online for clearance through our internet sales portal, however at potentially lower rates due to the pricing pressures normally attributed with online shopping. In 2018, we recorded a \$180,000 increase to our inventory reserves.

In accordance with generally accepted accounting principles, we have classified inventory as a current asset in our December 31, 2018, consolidated financial statements representing approximately 46% of current assets and 33% 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, 2018 Compared to the Year Ended December 31, 2017*

Net sales was \$8,222,000 and \$7,622,000 in 2018 and 2017, respectively, representing an increase of \$600,000 or 7.9%. The increase was primarily due to an increase in sales to existing customers of our ODM Projects.

Gross profit was \$3,618,000 and \$3,000,000 in 2018 and 2017, respectively, which represented 44% and 39.4% of net sales for those periods. The gross profit increase was driven primarily by an increase in ODM Project sales volume as well as certain of these products being sold at higher profit margins. During 2018, we were impacted by tariff costs on all products imported from China, which went into effect as of July 6, 2018. However, we also have been able to pass along a portion of these costs to our customers to mitigate these costs.

Selling, general and administrative expenses were \$2,199,000 and \$2,209,000 in 2018 and 2017, respectively, which represented 26.8% and 28.9% of net sales for those periods. The year-over-year decrease of \$10,000 was primarily due to travel expenses decreasing, partially offset by increases to our China office salaries and benefits, increases to property taxes and increases to professional fees.

Operating income was \$1,419,000 and \$791,000 in 2018 and 2017, respectively, which represented 17.3% and 10.4% of net sales for those periods.

Net interest income(expense) was \$9,000 and (\$38,000) in 2018 and 2017, respectively. The decrease to interest expense was due to paying off our note payable in April 2018.

Income tax provision was \$6,000 and \$5,000 in 2018 and 2017, respectively. Our tax provision is primarily based upon our state income tax liabilities.

As result of the foregoing, we recognized net income of \$1,378,000 and \$701,000 in 2018 and 2017, respectively, which represented 16.8% and 9.2% of net sales for those periods.

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We historically have satisfied our liquidity requirements through cash generated from operations, short-term commercial loans, subordinated related party 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, 2018 and 2017 were as follows:

	<b>Year Ended December</b>	
	<b>31,</b>	
	<b>2018</b>	<b>2017</b>
Operating activities	\$2,294,000	\$388,000
Investing activities	\$(5,000 )	\$(130,000 )
Financing activities	\$(1,029,000)	\$(1,014,000)

Cash provided by operating activities increased to \$2,294,000 during 2018, as compared to \$388,000 in the prior year. The increase in cash was primarily due to changes in trade accounts receivable levels decreasing by \$1,001,000 during 2018.

Cash used in investing activities decreased to \$5,000 during 2018, as compared to \$130,000 in the prior year. The decrease was primarily due our investment in securities in 2017.

Cash used in financing activities was \$1,029,000 during 2018, as compared to \$1,014,000 in the prior year. The increase was primarily due to our cash dividends payments (see Part II, Item 5: Market Information, for more information on our quarterly dividends declared).

We believe that funds generated from operations, existing cash balances and, if necessary, related party 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, 2018, inventory represented approximately 46% of current assets and 33% of total assets. However, it is likely to take over one year for the inventory to turn and therefore is likely not 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.

### **Recent Accounting Pronouncements**

Refer to Note 1 of our consolidated financial statements for recent accounting pronouncements.

### **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.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Taitron Components Incorporated

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of Taitron Components Incorporated (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income, shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial

statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provides a reasonable basis for our opinion.

/s/ HASKELL & WHITE LLP

We have served as the Company's auditor since 2017.

Irvine, California

April 1, 2019

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Table of Contents**Taitron Components Incorporated AND SUBSIDIARY****Consolidated Balance Sheets**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$4,494,000	\$3,250,000
Accounts receivable, less allowances of \$38,000 and \$40,000, respectively	901,000	978,000
Inventories, less reserves for obsolescence of \$7,189,000, and \$7,848,000, respectively (Note 2)	4,597,000	4,990,000
Prepaid expenses and other current assets	67,000	80,000
Total current assets	10,059,000	9,298,000
Property and equipment, net (Note 3)	3,710,000	3,866,000
Other assets (Note 4)	212,000	403,000
Total Assets	\$13,981,000	\$13,567,000
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$972,000	\$848,000
Accrued liabilities	311,000	358,000
Total Current Liabilities	1,283,000	1,206,000
Long-term debt from related party (Note 5)	-	500,000
Total Liabilities	1,283,000	1,706,000
Commitments and contingencies (Notes 6, 11 and 12)		
Shareholders' Equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares;	-	-
None issued or outstanding		
Class A common stock, \$0.001 par value. Authorized 20,000,000 shares;	5,000	5,000
4,867,235 and 4,808,235 shares issued and outstanding, respectively		
Class B common stock, \$0.001 par value. Authorized, issued and	1,000	1,000
outstanding 762,612 shares		
Additional paid-in capital	10,812,000	10,744,000
Accumulated other comprehensive income	128,000	144,000
Retained earnings	1,656,000	867,000
Total Shareholders' Equity - Taitron Components Inc	12,602,000	11,761,000
Noncontrolling interest in subsidiary	96,000	100,000



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Total Shareholders' Equity	12,698,000	11,861,000
Total Liabilities and Shareholders' Equity	\$ 13,981,000	\$ 13,567,000

See accompanying notes to consolidated financial statements.

Table of Contents**Taitron Components Incorporated AND SUBSIDIARY****Consolidated Statements of Operations and Comprehensive Income**

	<b>Twelve Months Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net product revenue	\$8,222,000	\$7,622,000
Cost of products sold	4,604,000	4,622,000
Gross profit	3,618,000	3,000,000
Selling, general and administrative expenses	2,199,000	2,209,000
Operating income	1,419,000	791,000
Interest income(expense), net	9,000	(38,000 )
Loss on investments (Note 4)	(185,000 )	(162,000 )
Other income, net	133,000	110,000
Income before income taxes	1,376,000	701,000
Income tax provision	(6,000 )	(5,000 )
Net income	1,370,000	696,000
Net loss attributable to noncontrolling interest in subsidiary	(8,000 )	(5,000 )
Net income attributable to Taitron Components Inc.	\$1,378,000	\$701,000
Net income per share: Basic	\$0.25	\$0.13
Net income per share: Diluted	\$0.24	\$0.12
Cash dividends declared per common share	\$0.105	\$0.100
Weighted average common shares outstanding: Basic	5,597,555	5,550,847
Weighted average common shares outstanding: Diluted	5,706,555	5,644,847
Net income	\$1,370,000	\$696,000
Other comprehensive income:		
Foreign currency translation adjustment	(16,000 )	(12,000 )
Comprehensive income	1,354,000	684,000
Comprehensive income(loss) attributable to noncontrolling interests	(4,000 )	(4,000 )
Comprehensive income attributable to Taitron Components Inc.	\$1,358,000	\$688,000

See accompanying notes to consolidated financial statements.



Table of Contents**Taitron Components Incorporated AND SUBSIDIARY****Consolidated Statement of Shareholders' Equity****For the years ended December 31, 2018 and December 31, 2017**

	Class A common stock		Class B common stock		Additional Paid-in capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest in Sub	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
Balances at December 31, 2016	4,768,235	\$5,000	762,612	\$1,000	\$10,701,000	\$156,000	\$720,000	\$104,000	\$11,687,000
Net loss	-	-	-	-	-	-	701,000	-	701,000
Comprehensive loss: Foreign currency translation adjustment	-	-	-	-	-	(12,000 )	-	-	(12,000 )
Exercise stock options	40,000	-	-	-	40,000	-	-	-	40,000
Amortization of stock based compensation	-	-	-	-	3,000	-	-	-	3,000
Cash dividends	-	-	-	-	-	-	(554,000 )	-	(554,000 )
Noncontrolling interest in subsidiary	-	-	-	-	-	-	-	(4,000 )	(4,000 )
Balances at December 31,	4,808,235	\$5,000	762,612	\$1,000	\$10,744,000	\$144,000	\$867,000	\$100,000	\$11,861,000

2017

Net income	-	-	-	-	-	-	1,378,000	-	1,378,000
Comprehensive loss:									
Foreign currency translation adjustment	-	-	-	-	-	(16,000)	-	-	(16,000)
Exercise stock options	59,000	-	-	-	60,000	-	-	-	60,000
Amortization of stock based compensation	-	-	-	-	8,000	-	-	-	8,000
Cash dividends	-	-	-	-	-	-	(589,000)	-	(589,000)
Noncontrolling interest in subsidiary	-	-	-	-	-	-	-	(4,000)	(4,000)
Balances at December 31, 2018	4,867,235	\$5,000	762,612	\$1,000	\$10,812,000	\$128,000	\$1,656,000	\$96,000	\$12,698,000

See accompanying notes to consolidated financial statements.

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Table of Contents**Taitron Components Incorporated AND SUBSIDIARY****Consolidated Statements of Cash Flows**

	<b>Twelve Months Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Operating activities:		
Net income	\$ 1,370,000	\$ 696,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	161,000	203,000
Provision for inventory reserves	180,000	180,000
Provision for sales returns and doubtful accounts	11,000	190,000
Stock based compensation	8,000	3,000
Loss on investments	185,000	162,000
Changes in assets and liabilities:		
Accounts receivable	66,000	(935,000 )
Inventories	213,000	(115,000 )
Prepaid expenses and other current assets	13,000	(7,000 )
Accounts payable	124,000	(9,000 )
Accrued liabilities	(48,000 )	20,000
Other assets and liabilities	11,000	-
Total adjustments	924,000	(308,000 )
Net cash provided by operating activities	2,294,000	388,000
Investing activities:		
Acquisition of property & equipment	(5,000 )	(37,000 )
Investment in securities	-	(93,000 )
Net cash used for investing activities	(5,000 )	(130,000 )
Financing activities:		
Payments on notes payable	(500,000 )	(500,000 )
Dividend payments	(589,000 )	(554,000 )
Proceeds from stock options exercised	60,000	40,000
Net cash used for financing activities	(1,029,000)	(1,014,000)
Impact of exchange rates on cash	(16,000 )	(12,000 )
Net increase (decrease) in cash and cash equivalents	1,244,000	(768,000 )
Cash and cash equivalents, beginning of period	3,250,000	4,018,000
Cash and cash equivalents, end of period	\$ 4,494,000	\$ 3,250,000
Supplemental disclosures of cash flow information:		

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Cash paid for interest	\$9,000	\$43,000
Cash paid for income taxes, net	\$3,000	\$3,000

See accompanying notes to consolidated financial statements.

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**Taitron Components Incorporated AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Overview of Business**

We are primarily a supplier of original designed and manufactured (ODM) electronic components (“ODM Components”) with our product offerings ranging from discrete semiconductors through small electronic devices. Our products include value-added engineering and turn-key solutions, focusing on providing contract electronic manufacturers (CEMs) and original equipment manufacturers (OEMs) with ODM products for their multi-year turn-key projects (“ODM Projects”). We also distribute brand name electronic components with a vast inventory available on hand. We are incorporated in California, and were originally formed in 1989. We maintain a majority-owned subsidiary in Mexico (our Mexico sales and distribution operations closed in May 2013) and divisions in Taiwan and China which were established in 1998, 1996 and 2005, respectively.

**Basis of Presentation**

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

**Principles of Consolidation**

Our consolidated financial statements include the accounts of Taitron Components, its various divisions and its 60% majority-owned subsidiary, Taitron Components Mexico, SA de CV (“TCM”). All significant intercompany transactions and balances have been eliminated in consolidation. The ownership interests of the noncontrolling investors in TCM are recorded in the accompanying consolidated balance sheets as a part of shareholders’ equity with a balance of



\$96,000 and \$100,000 as of December 31, 2018 and 2017, respectively.

### **Concentration of Risk**

A significant number of the products we distribute 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 our 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 our business. Our 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 we do not believe that any of these factors adversely impact our business at present, we cannot provide assurance 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 also have a material adverse impact on our business and results of operations. Management estimates that over 90% of our products purchased were produced in Asia.

Grand Shine Management (see Note 4 – Other Assets) accounted for approximately 35% and 33% of our net purchases for fiscal years 2018 and 2017, respectively. Samsung Electro-Mechanics Co. accounted for approximately 3% and 5% of our net purchases for each fiscal year 2018 and 2017. However, we do not regard any one supplier as essential to our operations, since equivalent replacements for most of our products 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 our direct relationship with a supplier, there exist alternative sources for a supplier's products.

In 2018, we had one customer accounting for more than 10% of our net sales, for approximately 48%. In 2017, we have two customers accounting for more than 10% of our net sales, for approximately 38% and 13%.

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As of December 31, 2018, we had one customer accounting for more than 10% of our trade accounts receivable, net of allowances of approximately 64% and as of December 31, 2017 we had two customers of approximately 49% and 22%.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and on deposit at banking institutions as well as all highly liquid short-term investments with original maturities of 90 days or less. Our cash equivalents are comprised primarily of money market investments. Our deposit accounts are not insured, however, we do not believe there is a significant credit risk with respect to the non-performance of these institutions based on their respective creditworthiness and liquidity.

### **Revenue Recognition**

We recognize revenue on arrangements in accordance with Financial Accounting Standards Board (“FASB”) ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”). Revenue is recognized at the point at which control of the underlying products are transferred to the customer. Satisfaction of our performance obligations occur upon the transfer of control of products, either from our facilities or directly from suppliers to customers. We consider customer purchase orders to be the contracts with a customer. All revenue is generated from contracts with customers. 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, 2018 and 2017 amounted to \$12,000 and \$190,000, respectively.

### **Business Segments**

We operate in one industry, the business of supplying ODM products and electronic components. Management designates the internal reporting used by the chief executive officer for making decisions and assessing performance as the source of our reportable segments. See Note 12 to the consolidated financial statements Geographic Information, for additional information

### **Nature of products**

We are primarily a supplier of original designed and manufactured (ODM) products that include value-added engineering and turn-key solutions. The following is a description of major products lines from which we generate our revenue:

ODM Projects - Our custom made small devices for original equipment manufacturers (OEMs) and contract electronic manufacturers (CEMs) in their multi-year turn-key projects and marketed in specific industries such as: wild animal feeders, timers for DC motors, public street light controllers, and battery chargers.

ODM Components - Our private labeled electronic components.

Distribution Components - Our name brand electronic components.

### Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major product line, and timing of revenue recognition.

	<b>Twelve Months Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Primary geographical markets:		
United States	\$7,377,000	\$6,803,000
Asia	806,000	781,000
Other	39,000	38,000
	8,222,000	7,622,000
<u>Major product lines:</u>		
ODM projects	\$4,890,000	\$4,270,000
ODM components	2,709,000	2,656,000
Distribution components	623,000	696,000
	8,222,000	7,622,000
<u>Timing of revenue recognition:</u>		
Products transferred at a point in time	\$8,222,000	\$7,622,000

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**Allowances for Sales Returns and Doubtful Accounts**

Sales Returns - We may, on a case-by-case basis, accept returns of products from our customers, without restocking charges, when they can demonstrate an acceptable cause for the return. Requests by a distributor to return products purchased for its own inventory generally are not included under this policy. We may, 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. We will not accept returns of any products that were special-ordered by a customer or that otherwise are not generally included in our inventory.

Doubtful Accounts - Accounts receivable are recorded at net realizable value or the amount we expect to collect on gross customer trade receivables. We evaluate the collectability of our accounts receivable based on a combination of factors. If we become aware of a customer's inability to meet its financial obligations after a sale has occurred, we record an allowance to reduce the net receivable to the amount we reasonably believe we will be able to collect from the customer. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and historical experience. If the financial condition of our customers were to deteriorate or if economic conditions worsen, additional allowances may be required in the future. All of our accounts receivables are trade-related receivables.

The allowances for sales returns and doubtful accounts at December 31, 2018 and 2017 amounted to \$38,000 and \$40,000, 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 net realizable value. The amount presented in the accompanying consolidated balance sheet is net of valuation allowances of \$7,189,000 and \$7,848,000 at December 31, 2018 and 2017, respectively.

Based upon regular evaluations of inventory to identify costs in excess of the lower of cost or net realizable value, slow-moving inventory and potential obsolescence, we increased our reserves by \$180,000 during each of the years ended December 31, 2018 and 2017 (see Note 2 – Inventory).

**Property and Equipment**

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are computed principally using accelerated and straight-line methods using lives from 5 to 7 years for furniture, equipment, computer software and hardware and 31.5 years for building and building improvements. Property and equipment amortized using an accelerated method does not result in a material difference over the straight-line method. Renewals and betterments, which extend the life of an existing asset, are capitalized while normal repairs and maintenance costs are expensed as incurred.

## **Investments**

Investments are accounted for using the equity method if the investment provides us the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method is appropriate.

All other equity investments, which consist of investments for which we do not possess the ability to exercise significant influence, are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in realizable value and additional investments.

## **Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of**

In accordance with ASC 350-30, we evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. We currently believe there is no impairment of our long-lived assets. There can be no assurance, however, that market conditions will not change or demand for our products under development will continue. Either of these could result in future impairment of long-lived assets.

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**Marketing**

Marketing costs consist primarily of payroll and related expenses for personnel engaged in marketing, business development, and selling activities. Advertising and other promotional costs, are expensed as incurred, and were \$2,000 and \$10,000 for the years ended December 31, 2018 and 2017, respectively.

**Shipping Activities**

Outbound shipping charges to customers are included in "Net sales." Outbound shipping-related costs are included in "Cost of goods sold."

**Stock-Based Compensation**

We account for our employee share-based compensation in accordance ASC 718-20. Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite vesting period.

**Income Taxes**

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740, Income Taxes ("ASC 740"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined, 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 we are 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 jurisdiction. With limited exceptions, we remain subject to Internal Revenue Service (“IRS”) examination of our income tax returns filed within the last three (3) years, and to California Franchise Tax Board examination of our income tax returns filed within the last four (4) years. 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. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes.

#### Fair Value Measurements

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. We use the following three levels of inputs in determining the fair value of our assets and liabilities, focusing on the most observable inputs when available:

*Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.*

*Level 2 - Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.*

*Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.*

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To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input that is significant to the fair value measurement.

## **Net Income Per Share**

Basic income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income per share includes potentially dilutive securities such as outstanding options and warrants, using the treasury stock method in the determination of dilutive shares outstanding during each reporting period.

## **Foreign Currency Translation**

The financial statements of our majority-owned subsidiary in Mexico and divisions in Taiwan and China are translated from the Mexican Peso, the Taiwanese Dollar and the Chinese Yuan, respectively, into U.S. dollars for financial reporting purposes. Balance sheet accounts are translated at year-end or historical rates while income and expenses are translated at weighted-average exchange rates for the year. Translation gains or losses related to net assets are shown as a separate component of shareholders' equity as accumulated other comprehensive income. Gains and losses resulting from realized foreign currency transactions (transactions denominated in a currency other than the entities' functional currency) are included in operations. The transactional gains and losses are not significant to the consolidated financial statements.

## **Use of Estimates**

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

## **Reclassifications**



Certain reclassifications may have been made to the prior years' financial statements in order to conform to the current year presentation. Such reclassifications are immaterial to both current and all previously issued financial statements taken as a whole and had no effect on previously reported results of operations.

### **New Accounting Pronouncements**

In February 2016, the FASB issued a new accounting standard on leasing. The new standard will require companies to record most leased assets and liabilities on the balance sheet, and also proposes a dual model for recognizing expense. This guidance will be effective in the first quarter of 2019 with early adoption permitted. We have evaluated the impact of adopting this guidance and we expect the adoption of these accounting changes will not impact our assets and liabilities nor our net income or equity, as we currently do not lease any assets.

In January 2017, the FASB issued a new accounting standard which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This guidance will be effective for the Company for the year ending December 31, 2019 and interim reporting periods within that year. Early adoption is permitted for transactions that have not been reported in financial statements that have been issued or made available for issuance. We expect the adoption of this guidance will not have a material effect on our consolidated financial statements.

In May 2017, the FASB issued a new accounting standard which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC Topic 718. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This guidance will be effective for the year ending December 31, 2019 and interim reporting periods within that year. Early adoption is permitted. We expect the adoption of this guidance will not have a material effect on our consolidated financial statements.

Table of Contents**2 - INVENTORY**

Inventory, consisting principally of products held for resale, is stated at the lower of cost, using the first-in, first-out method, or net realizable value. The amount presented in the accompanying consolidated balance sheet is net of valuation allowances of \$7,189,000 and \$7,848,000 at December 31, 2018 and 2017, respectively.

Based upon regular evaluations of inventory to identify costs in excess of the lower of cost or net realizable value and slow-moving inventory, we increased our reserves by \$180,000 for both years ended December 31, 2018 and 2017, respectively, and such amounts were recorded as costs of goods sold.

**3 - PROPERTY AND EQUIPMENT**

Property and equipment, at cost, is summarized as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Land	\$1,297,000	\$1,297,000
Buildings and improvements	5,096,000	5,096,000
Furniture and equipment	783,000	782,000
Computer software and hardware	557,000	553,000
Total Property and Equipment	7,733,000	7,728,000
Less: Accumulated depreciation and amortization	(4,023,000)	(3,862,000)
Property and Equipment, net	\$3,710,000	\$3,866,000

**4 - OTHER ASSETS**

The following table presents a summary roll-forward of other assets:

<b>Investment in securities</b>	<b>Investment in joint venture - Grand Shine</b>	<b>Other</b>	<b>Other Assets Total</b>
-			

	<b>Zowie Technology</b>	<b>Mgmt</b>		
Balance at December 31, 2016	\$ 100,000	\$ 347,000	\$ 24,000	\$ 471,000
Investment	93,000	-	-	93,000
Net investment losses during the year	-	(162,000 )	-	(162,000)
Other changes	-	-	1,000	1,000
Balance at December 31, 2017	193,000	185,000	25,000	403,000
Net investment losses during the year	-	(185,000 )	-	(185,000)
Other changes	-	-	(6,000 )	(6,000 )
Balance at December 31, 2018	\$ 193,000	\$ -	\$ 19,000	\$ 212,000

Our \$193,000 investment in securities as of December 31, 2018 relates to our ownership of 1,322,552 common shares of Zowie Technology Corporation (Taipei Hsien, Taiwan), a supplier of electronic component products (see Part I: Item 1 – Business – Suppliers). Our investment represents approximately 7.9% of their total outstanding shares although we do not have significant influence or control. This investment is accounted for under the cost method basis of accounting, however when facts and circumstances indicate that the carrying value of this asset may not be recoverable, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the estimated fair value.

In 2018, we sold our interests in Grand Shine Management.

Table of Contents**5 - LONG-TERM DEBT FROM RELATED PARTY**

Long-term debt consists of the following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Secured credit facility from related party	\$ -	\$ 500,000
Less current portion	-	-
Long-term debt, less current portion	\$ -	\$ 500,000

Secured credit facility - On April 21, 2008, we entered into a \$3,000,000 credit facility, collateralized by real property, from K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer (see Note 6 – Related Party Transactions). On August 11, 2016, we renewed and extended maturities to June 30, 2017 and beyond. Credit was available in \$500,000 advances, each advance payable in monthly interest only installments, at the rate of Prime + 0.25% per annum (Prime was 4.50% at December 31, 2017). In 2018, we fully repaid the loan.

**6 - RELATED PARTY TRANSACTIONS**

We receive professional services and have credit available from K.S. Best International Co. Ltd., a company controlled by the brother of our Chief Executive Officer. We made payments to K.S. Best International Co. Ltd during each of the years 2018 and 2017, in the amount of \$24,000 annually for professional fees related to the operational management of our Taiwan office. In addition, during each of the years 2018 and 2017, we made payments of \$9,000 and \$43,000, respectively, for interest expense incurred on our outstanding borrowings. See also Note 5.

We purchase electronic component products from Princeton Technology Corporation (“PTC”), a company controlled by Mr. Richard Chiang, one of the directors on our board. During the years ended December 31, 2018 and 2017, we purchased products in the amount of \$5,000 and \$59,000, respectively, from PTC. All of these purchases were for products we carry in inventory and we consider these purchases to be in the normal course of business and negotiated on an arm’s length basis. We have also entered into a distributor agreement with PTC, and accordingly, we expect to continue purchasing from PTC in the future.

**7 - SHARE BASED COMPENSATION**

Our 2018 Stock Incentive Plan (the “Plan”) authorizes the issuance of up to 1,000,000 shares pursuant to options or awards granted under the Plan. Under the Plan, incentive stock and nonstatutory options were granted at prices equal to at least the fair market value of our Class A common stock at the date of grant. Outstanding options vest in three equal annual installments beginning one year from the date of grant and are subject to termination provisions as defined in the Plan. The fair value of options was determined using the Black-Scholes option-pricing model with the following weighted average assumptions as follows for 2018: dividend yield of 6%; expected volatility of 33%; a risk free interest rate of approximately 3.15% and an expected holding period of 10 years.

Stock option activity during the periods indicated is as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2016	376,000	1.07	4.1	\$ 71,600
Exercised	(40,000 )	1.00		
Forfeited	(5,000 )	1.09		
Outstanding at December 31, 2017	331,000	1.08	3.5	\$ 204,400
Grants	215,000	1.90	7.3	
Exercised	(59,000 )	1.02		
Forfeited	(34,000 )	1.48		
Outstanding at December 31, 2018	453,000	1.35	5.0	\$ 182,400
Exercisable at December 31, 2018	238,000	\$ 1.04	2.8	\$ 147,600

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At December 31, 2018, the range of individual weighted average exercise prices was \$.98 to \$1.62 and the unamortized compensation expense was approximately \$50,000.

**8 - SHAREHOLDER'S EQUITY**

Preferred Stock - There are 5,000,000 shares of authorized preferred stock, par value \$0.001 per share, with no shares of preferred stock issued or outstanding. The terms of the shares are subject to the discretion of the Board of Directors.

Class A Common Stock - There are 20,000,000 shares of authorized Class A common stock, par value \$0.001 per share, with 4,867,325 and 4,808,235 issued and outstanding as of December 31, 2018 and 2017, respectively. Each holder of Class A common stock is entitled to one vote for each share held. During 2018, we issued 59,000 shares of our Class A common stock. During 2017, we issued 40,000 shares of our Class A common stock.

Class B Common Stock - There are 762,612 shares of authorized Class B common stock, par value \$0.001 per share, with 762,612 shares issued and outstanding as of December 31, 2018 and 2017. Each holder of Class B common stock is entitled to ten votes for each share held. The shares of Class B common stock are convertible at any time at the election of the shareholder into one share of Class A common stock, subject to certain adjustments. Our Chief Executive Officer is the sole beneficial owner of all the outstanding shares of Class B common stock.

Dividends – During the nine months ended September 30, 2018 and for all of 2017, we declared and paid quarterly dividends at \$.025 per share. For the quarter ended December 31, 2018, we paid quarterly dividends of \$0.03 per share.

**9 - INCOME TAXES**

Income tax provision is summarized as follows:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Current:		
Federal	\$-	\$-

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Foreign	-	2,000
State	6,000	3,000
	6,000	5,000
Deferred:		
Federal	216,000	1,494,000
State	103,000	55,000
Increase in valuation allowance	(319,000)	(1,549,000)
	-	-
Income tax provision	\$6,000	\$5,000

The actual income tax provision differs from the “expected” tax computed by applying the Federal corporate tax rate of 21% to the loss before income taxes as follows:

	<b>Year Ended December</b>	
	<b>31,</b>	
	<b>2018</b>	<b>2017</b>
“Expected” income tax benefit	\$288,000	\$234,000
State tax expense, net of Federal benefit	5,000	2,000
Foreign loss	-	4,000
Increase in valuation allowance	(319,000)	(1,549,000)
Foreign tax expense	(4,000 )	(1,000 )
Tax rate change	-	1,264,000
Other	36,000	51,000
Income tax provision	\$6,000	\$5,000

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The tax effects of temporary differences which give rise to significant portions of the deferred taxes are summarized as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Deferred tax assets:</b>		
Inventory reserves	\$2,146,000	\$2,341,000
Section 263a adjustment	-	47,000
Allowances for bad debts and returns	11,000	12,000
Accrued expenses	19,000	19,000
Asset valuation reserve	481,000	426,000
Net operating loss carry forwards	136,000	307,000
Other	152,000	71,000
Total deferred tax assets	2,945,000	3,223,000
Valuation allowance	(2,691,000)	(3,018,000)
	254,000	205,000
<b>Deferred tax liabilities:</b>		
Inventory overhead deferred tax liability	(73,000 )	-
Deferred state taxes	(181,000 )	(205,000 )
Total deferred tax liabilities	(254,000 )	(205,000 )
Net deferred tax assets	\$-	\$-

As of December 31, 2018, we had approximately \$416,000 and \$544,000 in net operating loss carryforwards for federal and state income tax purposes, respectively. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax assets, the level of historical taxable income and tax planning strategies in making the assessment of the realizability of deferred tax assets. At December 31, 2018 and 2017, we have recorded valuation allowances against our net deferred tax assets of \$2,691,000 and \$3,018,000, respectively, as management determined that it is not more likely than not that the Company will realize the benefits of the net deferred tax assets, primarily based on the Company's historical net losses. We have identified the U.S. federal and California as our "major" tax jurisdiction. With limited exceptions, we remain subject to IRS examination of our income tax returns filed within the last three (3) years, and to California Franchise Tax Board examination of our income tax returns filed within the last four (4) years.

**10 - NET INCOME PER SHARE**

The following data shows a reconciliation of the numerators and the denominators used in computing income per share and the weighted average number of shares of potentially dilutive common stock.



	<b>Year ended December</b>	
	<b>31,</b>	
	<b>2018</b>	<b>2017</b>
Net income available to common shareholders used in basic and diluted income per share	\$1,378,000	\$701,000
Weighted average number of common shares used in basic income per share (Class A and B shares)	5,597,555	5,550,847
Basic income per share (Class A and B shares)	\$0.25	\$0.13
Effect of dilutive securities:		
Options	109,000	94,000
Weighted average number of common shares and dilutive potential common shares used in diluted income per share (Class A and B shares)	5,706,555	5,644,847
Diluted income per share	\$0.24	\$0.12

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**11 - EMPLOYEE BENEFIT PLANS**

We have a defined contribution profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code (“the Plan”) covering only our U.S. based employees. Participants once eligible, as defined by the Plan, may contribute up to the maximum allowed under the Internal Revenue Code. The Plan also provides for safe harbor matching contributions, vesting immediately, at our discretion. For each year ended December 31, 2018 and 2017, employer matching contributions aggregated approximately \$28,000.

Participants in the Plan, through self-directed brokerage accounts, held 929,203 (approximately 19%) shares in Class A common stock of Taitron Components as of both December 31, 2018 and 2017. The Plan does not offer new issues of Taitron Components common stock as an investment option.

**12 - COMMITMENTS AND CONTINGENCIES**

Legal and Regulatory Proceedings

We are engaged in various legal and regulatory proceedings incidental to our normal business activities, none of which, individually or in the aggregate, are deemed to be a material risk to our financial condition.

Inventory Purchasing

Outstanding commitments to purchase inventory from suppliers aggregated \$1,200,000 as of December 31, 2018 and December 31, 2017.

**13 - GEOGRAPHIC INFORMATION**

The following table presents summary geographic information about revenues and long-lived assets (land and property, net of accumulated depreciation) attributed to countries based upon location of our customers or assets:

Year ended December		December 31,	
31,		2018	2017
2018	2017		

	<b>Revenues</b>	<b>Revenues</b>	<b>Long-lived Assets</b>	<b>Long-lived Assets</b>
United States	\$7,377,000	\$6,803,000	\$2,679,000	\$2,788,000
South Korea	509,000	455,000	-	-
China	237,000	296,000	831,000	875,000
Taiwan	55,000	17,000	200,000	203,000
Other foreign countries	44,000	51,000	-	-
Total	\$8,222,000	\$7,622,000	\$3,710,000	\$3,866,000

#### **14 - SUBSEQUENT EVENTS**

On January 24, 2019, we invested an additional \$185,000 in preferred stock of Zowie Technology Corporation (see Note 4 – Other Assets).

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.** None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

*Evaluation of Disclosure Controls and Procedures.*

Our management, with the participation of our principal executive and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

*Internal Control over Financial Reporting.*

*a) Management’s Annual Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for the Company. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent nor detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our internal controls framework is based on the criteria set forth in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and includes those policies and procedures that: (i) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Based on such criteria, our management, with the participation of our principal executive and principal financial officer, evaluated the effectiveness of our internal control over financial reporting and concluded that it was effective as of December 31, 2018.

Management's assessment report was not subject to attestation by our independent registered public accounting firm and as such, no attestation was performed pursuant to SEC Final Rule Release Nos. 33-8934; 34-58028 that permits us to provide only management's assessment report for the year ended December 31, 2018.

*b) Changes in Internal Control over Financial Reporting.* There has been no change in our internal control over financial reporting that occurred in our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.** None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.**

The information required by this item will appear in our definitive proxy statement to be filed within 120 days after the close of the fiscal year-end in connection with our 2018 Annual Meeting of Shareholders (“the Proxy Statement”), and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this item will appear in our Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this item will appear in our Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.**

The information required by this item will appear in our Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item will appear in our Proxy Statement and is incorporated herein by reference.



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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

Financial Statement Schedules. Not Applicable.

Exhibits

- 21.1\* List of Subsidiaries (1)
  - 23.1\* Consent of Independent Registered Public Accounting Firm – Haskell & White LLP
  - 24.1\* Power of Attorney (contained on the signature page hereof)
  - 31.1\* Principal Executive Officer - Section 302 Certification
  - 31.2\* Principal Financial Officer - Section 302 Certification
  - 32\* Principal Executive and Principal Financial Officers - Section 906 Certification
  - 101.INS\* XBRL Instance Document
  - 101.SCH\* XBRL Taxonomy Extension Schema
  - 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
  - 101.DEF\* XBRL Taxonomy Extension Definition Linkbase
  - 101.LAB\* XBRL Taxonomy Extension Label Linkbase
  - 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase
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\* Filed herewith.

(1) Incorporated by reference from the Exhibit 21.1 of our Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 31, 2010.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TAITRON  
COMPONENTS  
INCORPORATED**

Dated: April 1, 2019 By: /s/ Stewart Wang  
Stewart Wang  
*Chief Executive Officer*

Dated: April 1, 2019  
By: /s/ David Vanderhorst  
David Vanderhorst  
*Chief Financial Officer*

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stewart Wang and David Vanderhorst and each of them singly, as attorneys-in-fact and agents, with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact, or his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated below.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
------------------	--------------	-------------

/s/ Johnson Ku Johnson Ku	<i>Chairman of the Board</i>	April 1, 2019
/s/ Stewart Wang Stewart Wang	<i>Director, Chief Executive Officer and President</i> (Principal Executive Officer)	April 1, 2019
/s/ Richard Chiang Richard Chiang	<i>Director</i>	April 1, 2019
/s/ Craig Miller Craig Miller	<i>Director</i>	April 1, 2019
/s/ Felix Sung Felix Sung	<i>Director</i>	April 1, 2019
/s/ David Vanderhorst David Vanderhorst	<i>Chief Financial Officer</i> (Principal Financial and Accounting Officer)	April 1, 2019