SOLITRON DEVICES INC
Form 10KSB
June 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2002

Commission File No. 1-4978

SOLITRON DEVICES, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	22-1684144
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

3301 Electronics Way, West Palm Beach, Florida 33407
(Address of Principal Executive Offices)

Issuer's telephone number: (561) 848-4311

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

Title of Each Class	Name of Each Exchange on Which Registered
None	N/A

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

Common Stock, $0.01 par value
(Title of Class)

Check whether the issuer (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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

Issuer's revenues for its most recent fiscal year: $6,399,000.

The aggregate market value of the registrant's common stock, par value $.01 per share, held by non-affiliates of the registrant, based upon the closing market price as of May 29, 2002, was approximately $352,040.

The number of shares outstanding of each of the issuer's classes of common stock, as of February 28, 2002: 2,070,821 shares of common stock, par value $.01

per share.

Transitional Small Business Disclosure Format: Yes ___ No X

Documents incorporated by reference: None

PART I

ITEM 1. BUSINESS

GENERAL

Solitron Devices, Inc., a Delaware corporation (the "Company" or "Solitron"), designs, develops, manufactures and markets solid-state semiconductor components and related devices primarily for the military and aerospace markets. The Company manufactures a large variety of bipolar and metal oxide semiconductor ("MOS") power transistors, power and control hybrids, junction and MOS field effect transistors and other related products. Most of the Company's products are custom made pursuant to contracts with customers whose end products are sold to the United States government. Other products, such as Joint Army Navy ("JAN") transistors, diodes and Standard Military Drawings ("SMD") voltage regulators, are sold as standard or catalog items.

The Company was incorporated under the laws of the State of New York in 1959, and reincorporated under the laws of the State of Delaware in August 1987.

PRODUCTS

The Company designs, manufactures and assembles bipolar and MOS power transistors, power and control hybrids, junction and Power MOSFETs, field effect transistors and other related products.

Set forth below by principal product type are the percentage (i) contributions to the Company's total sales of each of the Company's principal product lines for the fiscal year ended February 28, 2002 and for the fiscal year ended February 28, 2001 and (ii) contributions to the Company's total order backlog at February 28, 2002 and 2001 .

PRODUCT	FISCAL YEAR ENDED FEBRUARY 28, 2002	FISCAL YEAR ENDED FEBRUARY 28, 2001	BACKLOG AT FEBRUARY 28, 2002	BACKLOG AT FEBRUARY 28, 2001
Power Transistor	19%	15%	16%	11%
Hybrids	55%	53%	58%	65%
Field Effect Transistors	6%	11%	3%	5%
Power MOSFETS	20%	21%	23%	19%
	100%	100%	100%	100%

The Company's backlog at February 28, 2002 and revenue for the year ended February 28, 2002 reflect demand for the Company's products at such date and for such period. For more information, see "Backlog". The variation in the proportionate share of each product line for each period reflects changes in demand, changes emanating from the Congressional appropriations process and timing associated with awards of defense contracts, as well as shifts in technology and consolidation of defense prime contractors.

The Company's semiconductor products can be classified as active electronic components. Active electronic components are those that control and direct the flow of electrical current by means of a control signal such as a voltage or

current. The Company's active electronic components include bipolar transistors, integrated circuits and MOS transistors.

It is customary to subdivide active electronic components into those of a discrete nature and those, which are non-discrete. Discrete devices contain one single semiconductor element; non-discrete devices consist of integrated circuits or hybrid circuits, which contain two or more elements, either active or passive, interconnected to make up a selected complete electrical circuit. In the case of an integrated circuit, a number of active and passive elements are incorporated onto a single silicon chip. A hybrid circuit, on the other hand, is made up of a number of individual components that are mounted onto a suitable surface material, interconnected by various means, and suitably

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encapsulated. Hybrid and integrated circuits can either be analog or digital; presently, the Company manufactures only analog components. The Company's products are either standard devices, such as catalog type items (e.g., transistors and voltage regulators), or application-specific devices, also referred to as custom or semi-custom products. The latter are designed and manufactured to meet a customer's particular requirements. For the fiscal year ended February 28, 2002 approximately 90% of the Company's sales have been of custom products, and the remaining 10% have been of standard or catalog products.

Approximately 90% of the semiconductor components produced by the Company are manufactured pursuant to approved Source Control Drawings (SCD) from the United States government's prime contractors; the remainder are primarily JAN (Joint Army/Navy) qualified products approved for use by the military.. The Company's semiconductor products are used as components of military, commercial and aerospace electronic equipment, such as ground and airborne radar systems, power distribution systems, missiles, missile control systems and spacecraft. The Company's products have been used on the space shuttle and on spacecraft sent to the moon, to Jupiter (on Galileo) and, most recently, to Mars (on Global Surveyor and Mars Sojourner). Approximately 90% to 95% of the Company's sales have historically been attributable to contracts with customers whose products are sold to the United States government. The remaining 5% of sales are for non-military, scientific and industrial applications.

Custom products are typically sold to defense or aerospace companies such as Raytheon, Lockheed Martin and Honeywell, while standard products are sold to the same customer base and to the general electronic industry and incorporate such items as power supplies and other electronic control products. The Company has standard and custom products available in all of its major product lines.

The following is a general description of the principal product lines manufactured by the Company.

Power Transistors:

Power transistors are high current and/or high voltage control devices commonly used for active gain applications in electronic circuits. The Company manufactures a large variety of power bipolar transistors for applications requiring currents in the range of 0.1A to 150A or voltages in the range of 30V to 1000V. The Company employs over 60 types of silicon chips to manufacture over 500 types of power bipolar transistors and is currently expanding this line in response to increased market demand resulting from other companies' (e.g., Motorola) departure from the military market. The Company also manufactures power diodes under the same military specification. Additionally, it manufactures power N-Channel and P-Channel Power MOSFET transistors and is continuously expanding that line. The Company is qualified to deliver these products under MIL-PRF-19500. Some of these parts made by the company are custom

or standard.

The Company has been certified and qualified since 1968 under MIL-PRF-19500 (and its predecessor) standards promulgated by the Defense Supply Center Columbus ("DSCC"). These standards specify the uniformity and quality of bipolar transistors and diodes purchased for United States military programs. The purpose of the program is to standardize the documentation and testing for bipolar semiconductors for use in United States military and aerospace applications. Attainment of certification and/or qualification to MIL-PRF-19500 requirements is important since it is a prerequisite for a manufacturer to be selected to supply bipolar semiconductors for defense-related purposes. MIL-PRF-19500 establishes definite criteria for manufacturing construction techniques and materials used for bipolar semiconductors and assures that these types of devices will be manufactured under conditions that have been demonstrated to be capable of continuously producing highly reliable products. This program requires a manufacturer to demonstrate its products' performance capabilities. A manufacturer receives certification once its Product Quality Assurance Program Plan is reviewed and approved by DSCC. A manufacturer receives qualification once it has demonstrated that it can build and test sample product in conformity with its certified Product Quality Assurance Program Plan. Continuing to maintain MIL-PRF-19500 qualification is expected to improve the Company's business posture by increasing product marketability.

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Hybrids:

Hybrids are compact electronic circuits that contain a selection of passive and active components mounted on printed substrates and encapsulated in appropriate packages. The Company manufactures thick film hybrids, which generally contain discrete semiconductor chips, integrated circuits, chip capacitors and thick film or thin film resistors. Most of the hybrids are of the high-power type and are custom manufactured for military and aerospace systems. Some of the Company's hybrids include high power voltage regulators, power amplifiers, power drivers, boosters and controllers. Hybrids manufactured by the Company are custom or standard.

The Company has been certified (since 1990) and qualified (since 1995) under MIL-PRF-38534 (and its predecessor) standards promulgated by the DSCC. These standards specify the uniformity and quality of hybrid products purchased for United States military programs. The purpose of the program is to standardize the documentation and testing for hybrid microcircuits for use in United States military and aerospace applications. Attainment of certification and/or qualification to MIL-PRF-38534 requirements is important since it is a prerequisite for a manufacturer to be selected to supply hybrids for defense-related purposes. MIL-PRF-38534 establishes definite criteria for manufacturing construction techniques and materials used for hybrid microcircuits and assure that these types of devices will be manufactured under conditions that have been demonstrated to be capable of continuously producing highly reliable products. This program requires a manufacturer to demonstrate its products' performance capabilities. Certification is a prerequisite of qualification. A manufacturer receives certification once its Product Quality Assurance Program Plan is reviewed and approved by DSCC. A manufacturer receives qualification once it has demonstrated that it can build and test a sample product in conformity with its certified Product Quality Assurance Program Plan. Maintaining MIL-PRF-38534 qualification is expected to improve the Company's business posture by increasing product marketability.

Voltage Regulators:

The Company also qualified a line of voltage regulators in accordance with Class M of MIL-PRF-38535, which allows it to sell these products in accordance with

SMD specifications published by DSCC. The Company also makes standard and custom voltage regulators.

Field Effect Transistors:

Field effect transistors are surface-controlled devices where conduction of electrical current is controlled by the electrical potential applied to a capacitively coupled control element. The Company manufactures about 30 different types of junction and MOS field effect transistor chips. They are used to produce over 350 different field effect transistor types. Most of the Company's field effect transistors conform to standard Joint Electronic Device Engineering Council designated transistors, commonly referred to as standard 2N number types. The Company is currently expanding its product offering. The Company is qualified to deliver these products under MIL-PRF-19500. These devices can be custom or standard.

MANUFACTURING

The Company's engineers design its transistors, diodes, field effect transistors, hybrids and integrated circuits, as well as other customized products, based upon requirements established by customers, with the cooperation of the product and marketing personnel. The design of non-custom or catalog products is based on specific industry standards.

Each new design is first produced on a CAD/CAE computer system. The design layout is then reduced to the desired micro size and transferred to silicon wafers in a series of steps that include photolithography, chemical or plasma etching, oxidation, diffusion and metallization. The wafers then go through a fabrication process. When the process is completed, each wafer contains a large number of silicon chips, each chip being a single transistor device or a single diode. The wafers are tested using a computerized test system prior to being separated into individual chips. The chips are then assembled in standard or custom packages, incorporated in hybrids or sold as chips to other companies. The chips are normally mounted inside a chosen package using eutectic, soft solder or epoxy die attach techniques, and then wire bonded to the package pins using gold or aluminum wires. Many of the packages are manufactured by the Company and, in most cases, the Company plates its packages with gold, nickel or other metals utilizing outside vendors to perform the plating operation.

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In the case of hybrids, design engineers formulate the circuit and layout designs. Ceramic substrates are then printed with thick film gold conductors to form the interconnect pattern and with thick film resistive inks to form the resistors of the designed circuit. Semiconductor chips, resistor chips, capacitor chips and inductors are then mounted on the substrates and sequential wire bonding is used to interconnect the various components to the printed substrate, as well as to connect the circuit to the external package pins. The Company manufactures some of the hybrid packages it uses and purchases some from suppliers.

In addition to Company-performed testing and inspection procedures, certain of the Company's products are subject to source inspections required by customers (including the United States government). In such cases, designated inspectors are authorized to perform a detailed on-premise inspection of each individual device prior to encapsulation in a casing or before dispatch of the finished unit to ensure that the quality and performance of the product meets the prescribed specifications.

The raw materials used in the manufacture of the Company's products are generally readily available from multiple sources. Key suppliers of raw materials are companies such as International Rectifiers, Fairchild, IXYS,

Kyocera, Alberox, Platronics, Olin Aegis, EMCA-Remex, to name a few.

ISO 9001

In March 2000, Underwriters Laboratories awarded the Company ISO 9001 qualification. The ISO 9001 Program is a series of quality management and assurance standards developed by a technical committee of the European Community Commission working under the International Organization for Standardization. During the Fiscal Year ended February 28, 2002 the Company underwent two additional surveillance audits that resulted in recertification. Management believes that such qualification will continue to open the Company to additional business opportunities that were not available prior to such qualification.

FINANCIAL INFORMATION ABOUT EXPORT SALES AND MAJOR CUSTOMERS

Specific financial information with respect to the Company's export sales is provided in Note 10 to the Consolidated Financial Statements contained in Item 7 of this Annual Report.

MARKETING AND CUSTOMERS

The Company's products are sold throughout the United States and abroad primarily through a network of manufacturers' representatives and distributors. The Company is represented (i) in the United States by three representative organizations that operate out of 7 different locations with 7 salespeople and 2 stocking distributor organizations that operate out of 42 locations with 314 salespeople and (ii) in the international market by 2 representative organizations in 2 countries with 9 sales people. Some of the international groups serve as distributors as well as sales representatives. The Company also directly employs several sales, marketing, and application engineering personnel to coordinate operations with the representatives and distributors and to handle key accounts.

During the fiscal year ended February 28, 2002, the Company sold products to approximately 208 customers. Of these 208 customers, 79 had not purchased products from the Company during the previous fiscal year. During the fiscal year ended February 28, 2002, Raytheon accounted for approximately 39% of net sales, as compared to the 35% it accounted for during the fiscal year ended February 28, 2001. The U.S. government, representing 11% of total sales, as compared to approximately 13% for the fiscal year ended February 28, 2001, was the only other customer that accounted for more than 10% of net sales during the last fiscal year. Twelve of the Company's customers accounted for approximately 79% of the Company's sales during the fiscal year ended February 28, 2002. It has been the Company's experience that a large percentage of its sales have been attributable to a relatively small number of customers in any particular period. As a result of the mergers and acquisitions in general, and among large defense contractors in particular, the number of large customers will continue to decline in number, but this does not necessarily mean that the Company will experience a decline in sales. The Company expects customer concentration to continue. The loss of any major customer without offsetting orders from other sources would have a material adverse effect on the business' financial condition and results of operations of the Company.

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During the fiscal year ended February 28, 2002 and since that date, a substantial portion of the Company's products were sold pursuant to contracts or subcontracts with or to customers whose end products are sold to the United States government. Accordingly, the Company's sales may be adversely impacted by Congressional appropriations and changes in national defense policies and priorities. As a result of such Congressional appropriations and significant changes in military spending in recent years, the Company had an 8% increase in

net bookings during the fiscal year ended February 28, 2002 as compared to the previous year. All of the Company's contracts with the United States government or its prime contractors contain provisions permitting termination at any time at the convenience of the United States government or the prime contractor upon payment to the Company of costs incurred plus a reasonable profit.

In recognition of the changes in global geopolitical affairs and changed United States military spending, the Company is attempting to increase sales of its products for non-military, scientific and industrial niche markets, such as medical electronics, machine tool controls, specialized telecommunications, cellular telephone base stations and LEOS (Low Earth Orbit Satellites) telecommunication networks and other market segments in which purchasing decisions are generally based primarily on product quality, long-term reliability and performance, rather than on product price.

Although average sales prices are typically higher for products with military applications than for products with non-military, scientific and industrial applications, the Company hopes to minimize this differential by focusing on these quality-sensitive niche markets where price sensitivity is very low. There can be no assurance; however, that the Company will be successful in increasing its sales to these market segments, which increase in sales could be critical to the future success of the Company. To date, the Company has made only limited inroads in penetrating such markets.

In addition to these newer sales efforts, the Company is also attempting to offer additional products to the military markets that are complementary to those currently sold by the Company to the military markets, but as of yet has not made significant inroads in this endeavor.

Sales to foreign customers, located mostly in Canada, Western Europe and Israel, accounted for approximately 7% of the Company's net sales for the fiscal year ended February 28, 2002 as compared to 10% for the year ended February 28, 2001. All sales to foreign customers are conducted utilizing exclusively U.S. dollars.

BACKLOG

The Company's order backlog, which consists of semiconductor and hybrid related open orders, more than 90% of which are scheduled for delivery within 12 months, was approximately $4,266,000 at February 28, 2002, as compared to $3,821,000 as of February 28, 2001. The entire backlog consisted of orders for electronic components. The Company currently anticipates that the majority of its open order backlog will be filled by February 28, 2003. In the event that bookings in the long-term decline significantly below the level experienced since emerging from Chapter 11, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Bookings and Backlog."

The Company's backlog as of any particular date may not be representative of actual sales for any succeeding period because lead times for the release of purchase orders depend upon the scheduling practices of individual customers. The delivery times of new or non-standard products can be affected by scheduling factors and other manufacturing considerations, variances in the rate of booking new orders from month to month and the possibility of customer changes in delivery schedules or cancellations of orders. Also, delivery times of new or non-standard products are affected by the availability of raw material, scheduling factors, manufacturing considerations and customer delivery requirements.

The rate of booking new orders varies significantly from month to month, mostly as a result of sharp fluctuations in the government budgeting and appropriation

process. The Company has historically experienced somewhat decreased levels of bookings during the summer months, primarily as a result of such budgeting and appropriation activities. For these reasons, and because of the possibility of customer changes in delivery schedules or cancellations of orders, the Company's backlog as of any particular date may not be indicative of actual sales for any succeeding period. See

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"Management's Discussions and Analysis of Financial Conditions - Result of Operations" for a discussion of the decrease in bookings for the year ended February 28, 2002 as compared to the previous year.

PATENTS AND LICENSES

The Company owned approximately 33 patents (most of which have now expired or have been allowed to lapse) relating to the design and manufacture of its products. The terminations of these patents have not had a material adverse effect on the Company. The Company believes that engineering standards, manufacturing techniques and product reliability are more important to the successful manufacture and sale of its products than the old patents that it had.

COMPETITION

The electronic component industry, in general, is highly competitive and has been characterized by price erosion, rapid technological changes and foreign competition. However, in the market segments in which the Company operates, while highly competitive and subject to the same price erosion, technological change is slow and minimal. The Company believes that it is well regarded by its customers in the segments of the market in which competition is dependent less on price and more on product reliability and performance. Management believes, however, that to the extent the Company's business is targeted at the military and aerospace markets, where there has been virtually no foreign competition, it is subjected to less competition than manufacturers of commercial electronic components. Additionally, the decline in military orders and the shift in the requirement of the Defense Department whereby the use of standard industrial components is encouraged over the use of high reliability components that the Company manufactures, prompting the number of competitors to decline, afford the Company the opportunity to increase its market share. As the Company attempts to shift its focus to the sale of products having non-military, non-aerospace applications it will be subject to greater price erosion and foreign competition. Presently the Company is attempting to identify a niche market for high-end industrial custom power modules and custom motor controllers where the Company's capabilities can offer a technological advantage to customers in the motor driver industry. However, there is no guarantee that the Company will be successful in this effort.

The Company has numerous competitors across all of its product lines. The Company is not in direct competition with any other semiconductor manufacturer for an identical mixture of products; however, one or more of the major manufacturers of semiconductors manufactures some of the Company's products. A few such major competitors (e.g., Motorola, Intersil, Fairchild, among others) have elected to withdraw from the military market altogether. However, there is no assurance that the Company's business will increase as a result of such withdrawals. Other competitors in the military market include International Rectifier (the Omnirel Division), Microsemi (the NES Division) and Sensitron. The Company competes principally on the basis of product quality, turn-around time and price. The Company believes that competition for sales of products that will ultimately be sold to the United States government has intensified and will continue to intensify as United States defense spending continues to decrease and the Department of Defense pushes for implementation of its 1995 decision to purchase high-end, standard off-the-shelf commercial products in lieu of

products made in accordance with more stringent military specifications.

The Company believes that its primary competitive advantage is its ability to produce high quality products as a result of its years of experience, its sophisticated technologies and its experienced staff. The Company believes that its ability to produce highly reliable custom hybrids in a short period of time will give it a strategic advantage in attempting to penetrate high-end commercial markets and in selling military products complementary with those currently sold, as doing so would enable the Company to produce products early in design and development cycles. The Company believes that it will be able to improve its capability to respond quickly to customer needs and deliver products on time.

EMPLOYEES

At February 28, 2002, the Company had 88 employees (as compared to 90 at February 28, 2001), 59 of whom are engaged in production activities, 6 in sales and marketing, 6 in executive and administrative capacities and 17 in technical and support activities. Of the 88 employees 83 were full time employees and 5 were part time.

The Company has never had a work stoppage, and none of its employees are represented by a labor organization. The Company considers its employee relations to be satisfactory.

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SOURCES AND AVAILABILITY OF RAW MATERIAL

The Company purchases its raw materials from multiple suppliers and has a minimum of two suppliers for all of its material requirements. A few of the key suppliers of raw materials and finished packages purchased by the Company are: Alberox, Coining, Kilburn/Isotronics, IXYS, Platronics, Kyocera, Purecoat International, Stellar Industries, and others. Because of a diminishing number of sources of component packages the Company has been obliged to pay higher prices which consequently has increased costs of goods sold.

EFFECT OF GOVERNMENT REGULATION

The Company received DSCC approval to supply its products in accordance with MIL-PRF-19500, Class H of MIL-PRF-38534, and some products in accordance with Class M of MIL-PRF-38535. All are required to supply to the U.S. Government or its prime contractors. Continuing to maintain these qualifications is expected to improve the Company's business posture by maintaining product marketability.

RESEARCH AND DEVELOPMENT

During recent years, the Company has not spent any significant funds on research and development. This may have an adverse effect on future operations. The cost of designing custom products is borne in full by the customer, either as a direct charge or is amortized in the unit price charged to the customer.

ENVIRONMENTAL REGULATION

While the Company believes that it has the environmental permits necessary to conduct its business and that its operations conform to present environmental regulations, increased public attention has been focused on the environmental impact of semiconductor manufacturing operations. The Company, in the conduct of its manufacturing operations, has handled and does handle materials that are considered hazardous, toxic or volatile under federal, state and local laws and, therefore, is subject to regulations related to their use, storage, discharge and disposal. No assurance can be made that the risk of accidental release of such materials can be completely eliminated. In the event of a violation of

environmental laws, the Company could be held liable for damages and the costs of remediation and, along with the rest of the semiconductor industry, is subject to variable interpretations and governmental priorities concerning environmental laws and regulations. Environmental statutes have been interpreted to provide for joint and several liability and strict liability regardless of actual fault. There can be no assurance that the Company and its subsidiaries will not be required to incur costs to comply with, or that the operations, business or financial condition of the Company will not be materially adversely affected by current or future environmental laws or regulations.

ENVIRONMENTAL LIABILITIES

The Company is currently engaged in negotiations with the United States Environmental Protection Agency ("USEPA") to resolve the Company's alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida; Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Disposal Superfund Site, Santa Barbara County, California; and Solitron Devices Site, Riviera Beach, Florida. USEPA contends that the Company is liable for a share of past and future costs incurred by USEPA in connection with the investigation and remediation of the four (4) sites. At a meeting with USEPA on March 23, 2001, USEPA contended that the Company's alleged share of liability at the four (4) sites totals approximately $8 million, which USEPA broke down on a site by site basis as follows: Solitron Microwave, Port Salerno-$3.8 million; Petroleum Products - $150,000; Casmalia Disposal - $2.7 million; and Solitron Devices, Riviera Beach - $1 million.

In addition to the claims asserted by USEPA against the Company at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites, claims have been asserted against the Company by groups of alleged responsible parties formed at each of these two sites for all past and future cleanup expenses incurred or to be incurred by the respective groups. During the negotiations with USEPA to resolve the Company's alleged liability at all four (4) sites, the Company was advised by USEPA that a settlement with USEPA would most likely resolve the claims of the groups of alleged responsible parties formed at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites.

Preliminary communications with attorneys representing the respective groups support USEPA's representations in this regard.

The Company contends that the claims of USEPA and the private parties referenced above were discharged in bankruptcy pursuant to the Bankruptcy Court's Order Confirming Solitron's Fourth Amended Plan of Reorganization, entered in August 1993. Nevertheless, the Company is negotiating with USEPA to settle its outstanding liability at all four (4) sites based on an ability to pay ("ATP") determination. Under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"), the United States may enter into ATP settlements with individuals and businesses for recovery of response costs and performance of cleanup work in appropriate cases. The ATP settlement process is reserved for potentially responsible parties ("PRPs") who demonstrate to USEPA's satisfaction that payment of the amount sought by the government is likely to put an entity out of business or otherwise jeopardize its viability by creating an undue financial hardship. An undue financial hardship occurs if, in the opinion of USEPA, satisfaction of the environmental claim will deprive a PRP of ordinary and necessary assets or cause a PRP to be unable to pay for ordinary and necessary business expenses and/or ordinary and necessary living expenses. The ATP settlement process provides for a reduction in the proposed settlement to an amount, in the USEPA's estimation, that is not likely to create an undue financial hardship.

In connection with the foregoing settlement negotiations, the Riviera Beach

property was sold on October 12, 1999 by the Company. Under the terms of the sale, the USEPA received the net proceeds of $419,000. USEPA also received approximately $19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. Additionally, the Company has offered and USEPA has agreed to accept the net proceeds of the sale resulting from the sale of the Solitron Microwave Port Salerno site. Sale of the Port Salerno site is currently the subject of negotiations between the Company and a prospective purchaser. In addition, USEPA has advised the Company that the Company will be required to contribute additional funds to effect the settlement. The Company was advised in March 2000 that USEPA had determined initially that USEPA's model evaluating the Company's ability to pay determined that the Company could contribute an additional $80,000 plus a percentage of profits to effect the settlement. On May 20, 2002, the Company submitted it's ATP settlement offer to USEPA, the substantial provisions of which included payment of the sum of $65,000.00 over two years, and payment to USEPA of 5% of Solitron's net after tax income over the first $500,000.00, if any, for years 3-7 following the effective date of the settlement. USEPA is currently considering the Company's offer. Once the Company and USEPA have reached agreement on the ATP negotiations, it is anticipated that USEPA will recommend to the PRP groups at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites that the respective groups release the Company from further liability at either site upon the Company's compliance with the ATP settlement terms and conditions.

BANKRUPTCY PROCEEDINGS

On January 24, 1992 (the "Petition Date"), the Company and its wholly-owned subsidiary, Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.), a Delaware corporation, filed voluntary petitions seeking reorganization under Chapter 11 ("Chapter 11") of the United States Bankruptcy Code, as amended (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of Florida (the "Bankruptcy Court"). On August 20, 1993, the Bankruptcy Court entered an Order (the "Order of Confirmation") confirming the Company's Fourth Amended Plan of Reorganization, as modified by the Company's First Modification of Fourth Amended Plan of Reorganization (the "Plan of Reorganization" or "Plan"). The Plan became effective on August 30, 1993 (the "Effective Date"). On July 12, 1996, the Bankruptcy Court officially closed the case.

Pursuant to the Plan of Reorganization, beginning in approximately May 1995, the Company was required to begin making quarterly payments to holders of unsecured claims until they receive 35% of their claims. However, due to negotiations between the parties, the unsecured creditors agreed to a deferment of this payment (for more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations"). At the time, it was estimated that there was an aggregate of approximately $7,100,000 in unsecured claims and, accordingly, that the Company was required to pay approximately $2,292,000 to holders of allowed unsecured claims in quarterly installments of approximately $62,083. During the fiscal year ended February 28, 2002, the Company reached agreement with one unsecured creditor under which a small amount was paid as settlement of slightly more than $2,000 of recorded debts to unsecured creditors. An extraordinary income of approximately $2,000 from extinguishments of debt was consequently recorded.

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Beginning on the date the Company's net after tax income exceeds $500,000, the Company is obligated to pay (on an annual basis) each of the holders of unsecured claims (pro rata) and Vector Trading and Holding Corporation ("Vector"), a successor to certain assets and liabilities of the Company, and Vector's participants and successors, 5% of its net after tax income in excess of $500,000 until the tenth anniversary of the Effective Date, up to a maximum aggregate of $1,500,000 to the holders of unsecured claims (pro rata) and up to

a maximum aggregate of $1,500,000 to Vector participants and their successors (the "Profit Participation"). As the Company earned $637,000 in the fiscal year ended February 28, 2001, net after the accrual of $15,000 for the Profit Participation, it distributed, during the fiscal year ended February 28, 2002 approximately $7,500 to its unsecured creditors and approximately $7,500 to Vector and its successors in interest as contemplated by the Plan. As there is no income for the fiscal year ended February 28, 2002, there will be no distribution related to such fiscal year.

Pursuant to the Plan, the monies to be utilized to fund environmental assessments and remediations are to be made available from the proceeds of the sale or lease of the Port Salerno property, to the extent that the Company is successful in its efforts to sell or lease such property and the Riviera Beach property (as discussed in "Environmental Liabilities"). The Plan also required that to the extent the proceeds from the sale or lease of these properties are not sufficient to pay for the remediation, the Company will escrow monthly amounts. As of February 28, 2002, the Company has deposited $78,000 in the required escrow accounts, including $19,000 that has been paid out in connection with the Riviera Beach Property. The Riviera Beach property was sold on October 12, 1999 by the Company. Under the terms of the sale, the USEPA received the net proceeds of $419,000. USEPA also received approximately $19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. The Company's financial statements reflect liabilities of $1,544,000 relating to the foregoing assessment and remediation obligations. This best estimate of cleanup costs by the Company's environmental consultants is based on the assumption that the Plan and Consent Final Judgment will be implemented. with respect to environmental liabilities. Given USEPA's assertion of jurisdiction over the properties, the Company cannot give any assurance that actual remediation costs will not exceed the estimate based on compliance with the Plan. Because of the uncertainties of how USEPA will proceed with cleanup of the properties and resolution of the Company's ability to pay application, total costs to the Company cannot be estimated now. For a more definitive description of environmental matters pertaining to the Riviera Beach and Port Salerno Properties, please refer to "Environmental Liabilities".

The Company has not been making agreed payments under the Plan and otherwise to Martin County with respect to tax claims. It is anticipated that the Martin County tax claim will be paid in full with the sale of the Port Salerno Property. To date, the Martin County Tax Collector has not expressed objection to this proposal. The following table indicates the approximate cumulative status of amounts due under the Plan of Reorganization as of February 28, 2002:

	Due to Date	Paid
Martin County	$ 116,000	$ 7,957

ITEM 2. PROPERTIES

The Company's manufacturing operations and its corporate headquarters are located in one leased facility in West Palm Beach, Florida. The Company originally had leased the facility for a term ending December 31, 2001 and subleased approximately 25,000 square feet to S/V Microwave Products, Inc., a private company which bought substantially all the assets and certain liabilities of Solitron's microwave division in 1993. In 2001, the Company renegotiated a new lease to exclude the area previously subleased to S/V Microwave; and, accordingly with the terms of the new lease, had walls constructed and utilities divided so that the space previously occupied by S/V Microwave would be completely separate from the space occupied by the Company. The new lease is for a term of ten years ending December 31, 2011 and does not include an option to renew the lease under current terms. The Company believes

that its facilities in West Palm Beach, Florida will be suitable and adequate to meet its requirements for the foreseeable future.

The Company also owns the Port Salerno Property, which consists of a 42,000 square foot building and 23 acres of undeveloped land located in Port Salerno, Florida. On July 27, 1992, the USEPA listed this property on the National Priority List (NPL) for cleanup using monies from its Superfund and is contending that the Company is liable for its

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response costs. The Company has a pending ability to pay application before USEPA. The detail of the Company and USEPA's positions is set forth in Item 1, "Business - Environmental Liabilities".

ITEM 3. LEGAL PROCEEDINGS

John Stayduhar v. Vector Trading & Holding Corp. v Solitron Devices, Inc., et.al., Case No. CL 93-06850-AO, 15th Judicial Circuit Court in and for Palm Beach County Florida. Plaintiff Stayduhar, the former CEO of Solitron, filed this action against Vector in 1993. Stayduhar obtained judgments of some $600,000 against Vector in 1997, but has never collected on the judgments. Stayduhar then filed supplemental proceedings against third party defendants Solitron, Solitron/Vector Microwave Products, Inc. ("SVMP"), Inversiones Globales, HCG Technologies, Inc. ("HCGT"), and Howard White ("White"), the principal of Vector. (White, who has never been served, is not participating in the suit.) Stayduhar is not seeking any monetary relief against Solitron; he asked the Court to enjoin Solitron (and the other defendants) from conveying any Solitron stock that formerly belonged to Vector or its affiliates. The case settled in 2000 during a mediation in which Solitron did not participate. Last year, Stayduhar obtained judgments against various parties (including Inversiones Globales) and served discovery requests in aid of execution and writs of garnishment on Solitron. Pursuant to the settlement and judgments, Stayduhar has obtained stock in the Company from SVMP, HCGT and Inversiones Globales. In addition, pursuant to the writs, the Company paid $3,797 to Stayduhar representing monies that were due to Inversiones Globales pursuant to the profit participation agreement approved by the bankruptcy court in August 1993 in Solitron's Plan of Reorganization.

The Company received a claim by an estate owning property northwest and across Cove Road from the Port Salerno Property. The estate has asserted that the mailing address to which the bankruptcy notice was sent was in error. The estate has been advised that public water has been made available to the property and that the Company is prepared to settle for the allowance of a general unsecured claim in the amount of $10,000. This offer was rejected. The claim is unresolved and has been dormant since 1993.

See also Item 1, "Business - Environmental Liabilities".

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Since March 1995, the Company's Common Stock has been traded on NASDAQ's Electronic Bulletin Board (over the counter). The Company's Common Stock was traded on the New York Stock Exchange until October 13, 1993, at which time it began trading on the NASDAQ Small Cap Market where it was traded until March 1995.

The following table sets forth for the periods indicated, high and low bid information of the Common Stock as reported by NASDAQ's Over the Counter Electronic Bulletin Board ("OTCBB"). The prices set forth below reflect inter-dealer prices, without retail markup, markdown, or commission and may not represent actual transactions.

	FISCAL YEAR ENDED FEBRUARY 28, 2002		FISCAL YEAR ENDED	
	HIGH	LOW	HIGH	LOW
First Quarter	$0.5100	$0.3600	$2.7500	$0.8125
Second Quarter	$0.4800	$0.4000	$1.0000	$0.6200
Third Quarter	$0.4500	$0.2700	$0.7813	$0.4000
Fourth Quarter	$0.3300	$0.2000	$0.5000	$0.2800

As of February 28, 2002 and February 28, 2001, there were approximately 3,420 and 3,680 holders of record of the Company's Common Stock, respectively. On February 28, 2002, the last sale price of the Common Stock as reported on the Electronic Bulletin Board was $0.20 per share.

The Company has not paid any dividends since emerging from bankruptcy and the Company does not contemplate declaring dividends in the foreseeable future. Pursuant to the Company's ability to pay settlement proposal with the USEPA, the Company agreed not to pay dividends on any shares of capital stock until the settlement amount for environmental liabilities is agreed upon and paid in full.

The Company has not issued any shares of its Common Stock during the last three years.

Certificates representing 279,783 "old shares" of Common Stock, which were subject to an approximate 10 to 1 reverse split (which was authorized by the Bankruptcy Court on September 1993), have not been exchanged by the stockholders as of February 28, 2002. Subsequent to such stock split, these certificates now represent 28,420 shares of Common Stock, which are included in the 2,070,821 shares outstanding as of February 28, 2002 indicated in the beginning of this filing. These "old shares" have not been included in the number of shares outstanding as set forth in the Company's filings with the commission since the date of such stock split through its Annual Report on Form 10-KSB for the period ended February 28, 2001.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

In January 1992, as a result of losses and liquidity deficiencies, the Company

and its wholly owned subsidiary, Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On August 20, 1993, the Bankruptcy Court entered an Order of Confirmation confirming the Company's Plan of Reorganization and on August 30, 1993, the Plan of Reorganization became effective, and the Company emerged from bankruptcy. On July 12, 1996, the Bankruptcy Court officially closed the case.

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The following table is included solely for use in comparative analysis of income (loss) before extraordinary items to complement Management's Discussion and Analysis:

	(Dollars in Thousands) Year Ended February	
	28, 2002	28, 2001
Net Sales	$ 6,399	$ 7,970
Cost of sales	5,612	5,947
Gross profit	787	2,043
Selling, general and administrative expenses	1,214	1,539
Operating income (loss)	(427)	504
Interest expense	(19)	(17)
Interest expense on unsecured creditors claims	(44)	(62)
Interest income	75	154
Increase in Environmental Reserve	--	(12)
Other, net	(8)	(15)
Income (loss) before Extraordinary Item	(423)	556
Extraordinary Item	6	81
Net income (loss)	$ (417)	$ 637

LIQUIDITY AND CAPITAL RESOURCES

Subject to the following discussion, the Company expects its sole source of liquidity over the next twelve months to come from cash from operations.

During the first few fiscal years after its emergence from bankruptcy proceedings, the Company generally experienced losses from operations and severe cash shortages caused by a significant decline in both sales and open order backlog, decreased margins (which is characteristic in the industry) on the Company's products, significant expenses associated with the reorganization proceedings, and the Company's inability to obtain additional working capital through the sale of debt or equity securities or the sale of non-operating assets. However, for the years ended February 28, 2002 and February 28, 2001, the Company recorded a net loss of $417,000 and a net income of $637,000 respectively.

During the pendency of the bankruptcy proceedings, all secured and unsecured claims against and indebtedness of the Company (including accrued and unpaid interest) were stayed in accordance with the Bankruptcy Code while the Company continued its operations as a debtor-in-possession, subject to the control and supervision of the Bankruptcy Court. Because these stays limit cash outflow, the Company, during the pendency of the Bankruptcy Proceedings, realized positive cash flow from ongoing operations. Since the Company emerged from Chapter 11, it has experienced a positive cash flow from recurring operations; however, until the fiscal year ended February 28, 1997, overall cash flow was negative due primarily to the necessity to make payments of administrative expenses and unsecured debt payouts arising in connection with the bankruptcy proceedings.

The Company has incurred an operating loss of approximately $427,000 for the fiscal year ended February 28, 2002 and has significant obligations arising from settlements in connection with its bankruptcy that require the Company to make

substantial cash payments that cannot be supported by the current level of operations.

Based upon (i) management's best information as to current national defense priorities, future defense programs, as well as management's expectations as to future defense spending, (ii) the market trends signaling a continued slowdown and soft level of booking and a continued price erosion, and (iii) a continual lack of foreign competition in the defense and aerospace market, the Company believes that it will have sufficient cash on hand to satisfy its operating needs over the next 12 months. However, due to the lower level of current backlog and new order intake (due to the slowdown of the general economy), the Company will operate at a loss for the next two to three quarters. Thus, based on these factors and at the current bookings, prices, profit margins and sales levels, the Company will not generate sufficient cash to satisfy its operating needs and its obligations to pre-bankruptcy creditors in accordance with the Plan.

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Thus, it is in continuous negotiations with all claim holders to reschedule these payments. In the event the Company is unable to restructure its obligations to pre-bankruptcy claimants or the slowdown in the intake of new orders continue, the Company has a contingency plan to further reduce its size and thereby reduce its cost of operations within certain limitations. Over the long-term, the Company believes that if the volume and prices of product sales recover as presently anticipated, the Company will generate sufficient cash from operations to sustain operations. In the event that bookings in the long-term continue to decline significantly below the level experienced since emerging from Chapter 11, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. In appropriate situations, the Company may seek strategic alliances, joint ventures with others or acquisitions in order to maximize marketing potential and utilization of existing resources and provide further opportunities for growth. The Company cannot assure you, however, that it will be able to generate sufficient liquidity to meet its operating needs now or in the future.

Subject to the long term recovery of order intake and the ability to ship products in a timely manner, the Company projects that it will continue to be able to generate sufficient funds to support its ongoing operations only if it is able to renegotiate its required payments to unsecured creditors, the USEPA, the FDEP and the Martin County tax authorities or raise sufficient cash in order to pay these obligations as currently due; otherwise it will not be able to remain a going concern.

The Company is continuing to negotiate with the unsecured creditors, the USEPA, the FDEP, and Martin County tax authorities in an attempt to arrive at reduced payment schedules. To date, these parties have not expressed objection to the reduced level of payments. In addition, the Company has a contingency plan to reduce its size and thereby reduce its cost of operations within certain limitations. However, no assurance can be made that the Company can reach a suitable agreement with the unsecured creditors, USEPA, FDEP or Martin County tax authorities or obtain additional sources of capital and/or cash or that the Company can generate sufficient cash to meet its obligations.

At February 28, 2002 and February 28, 2001 respectively, the Company had cash and cash equivalents of $1,335,000 and $2,190,000. The principal cash change was due to the loss from operations.

At February 28, 2002, the Company had working capital of $2,057,000 as compared with a working capital at February 28, 2001 of $2,827,000. The principal change was due to a decrease in cash.

See "Environmental Liabilities", "Bankruptcy Proceedings" and "Properties" in Part I, Items 1 and 2, for more information.

BOOKINGS AND BACKLOG

During the fiscal year ended February 28, 2002, the Company's net bookings were $6,842,000 in new orders as compared with $6,347,000 for the year ended February 28, 2001, reflecting an increase of approximately 8%. The Company's backlog increased to $4,266,000 at February 28, 2002 as compared with $3,821,000 as of February 28, 2001, reflecting a 12% increase. In the event that bookings in the long-term decline significantly below the level experienced since emerging from Chapter 11, the Company may be required to implement further cost-cutting or other downsizing measure to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. Furthermore, the Company cannot assure you that such measures would be sufficient to enable the Company to continue its business operations.

See Part I, Item 1, "Business - Marketing and Customers".

FUTURE PLANS

To lessen the Company's current liquidity problems, the Company plans to (a) continue improving operating efficiencies; (b) further reduce overhead expenses; (c) develop off-shore manufacturing capability utilizing strategic partners and/or sub-contractors; (d) develop alternative lower cost packaging technologies; (e) develop products utilizing its current manufacturing technologies geared toward market segments it is currently unable to serve. Also, the Company intends to identify lower cost base assembly partners in the Asia-Pacific region in an effort to enhance the Company's competitive position while reducing costs.

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The Company also plans to continue its efforts in selling privately labeled commercial semiconductors and power modules and to develop offshore assembly or sub-assembly whether as contract or strategic alliance arrangements. If these plans are successful, the Company intends to aggressively pursue sales of these products which could require the Company to invest in the building up of inventories of finished goods and invest in capital (automatic assembly and test) equipment. The source of capital funding will be defined subsequent to such strategic partnership being formed. Such financing could come from equipment leasing.

Despite its intentions, the Company cannot assure you that these plans will be successful in easing liquidity problems, reducing costs or improving sales.

INFLATION

The rate of inflation has not had a material effect on the Company's revenues and costs and expenses, and it is not anticipated that inflation will have a material effect on the Company in the near future.

SEASONALITY

The Company's bookings of new orders and sales are largely dependent on congressional budgeting and appropriation activities and the cycles associated therewith. The Company has historically experienced somewhat decreased levels of bookings during the summer months, primarily as a result of such budgeting and appropriation activities.

RESULTS OF OPERATIONS

2002 vs. 2001

Net sales for the fiscal year ended February 28, 2002 decreased by 20% to $6,399,000 versus $7,990,000 during the fiscal year ended February 28, 2001, reflecting a lower demand for the Company's products due to cuts in defense spending and slower economic activity.

Bookings were higher than sales by approximately 7%; thus, the backlog increased from $3,821,000 as of February 28, 2001 to $4,266,000 as of February 28, 2002. The Company has experienced an increase in the level of bookings of 8% for the year ended February 28, 2002 as compared to the previous year.

During the year ending February 28, 2002, the Company shipped 360,416 units as compared with 1,403,817 units shipped during the year ending February 28, 2001. It should be noted that since the Company manufactures a wide variety of products with an average sale price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped might not be a reliable indicator of the Company's performance.

Cost of Sales for the fiscal year ended February 28, 2002 decreased to $5,612,000 from $5,947,000 during the fiscal year ended February 28, 2001. The major reason for this decrease was a decline of 20% in sales that resulted in a $172,000 reduction in material costs. A $23,000 reduction in direct labor costs and a $121,000 reduction in indirect labor costs also contributed to the decrease in cost of sales. Expressed as a percentage of sales, cost of sales increased from 74% for the fiscal year ended February 28, 2001 to 88% for the fiscal year ended February 28, 2002.

During the year ending February 28, 2002 the Company's gross profits were $787,000 (12% margin) as compared to $2,043,000 (26% margin) for the year ending February 28, 2001. The decrease was due principally to a 20% reduction in the volume of sales.

During the year ending February 28, 2002, Selling, General and Administrative based expenses, as a percentage of sales, were 19% as compared with 19% for the year ending February 28, 2001. Selling, General and Administrative expenses decreased 21% to $1,214,000 for the fiscal year ended February 28, 2002 from $1,539,000 for the fiscal year ended February 28, 2001. This decrease was due mainly to lower sales commissions, lower legal fees, and lower sales consulting expenses.

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Operating Income for the fiscal year ended February 28, 2002 decreased to a loss of $427,000 from a profit of $504,000 during the fiscal year ended February 28, 2001. This decrease was primarily attributable to a lower volume of sales and to the change in product mix.

Total interest expense decreased from $79,000 for the fiscal year ended February 28, 2001 to $63,000 for the fiscal year ended February 28, 2002 due to lower imputed interest on debt to unsecured creditors, offset by a slight increase in interest calculated on delinquent property taxes.

Interest Expense on unsecured creditor claims for the fiscal year ended February 28, 2002 decreased to $44,000 from $62,000 during the fiscal year ended February 28, 2001. Interest Expense on delinquent property taxes increased $2,000 due to the increase of the delinquent tax base by one year of taxes relating to the Port Salerno property.

Interest Income for the fiscal year ended February 28, 2002 decreased to $75,000 from $154,000 during the fiscal year ended February 28, 2001. This decrease was attributable to a lower cash position as well as to lower interest rates received from the bank.

Other Net for the fiscal year ended February 28, 2002 included an expense of $8,000, of which approximately $7,000 was for expenses relating to the non-operating facility in Port Salerno. For the fiscal year ended February 28, 2001, Other Net included an expense of $23,000, of which approximately $8,000 related to the non-operating facility at Port Salerno and $15,000 represented the 5% of fiscal year 2001 income in excess of $500,000 that was distributed to unsecured creditors and to Vector participants during the fiscal year ended February 28, 2002.

During the fiscal year ended February 28, 2001, an increase of $547,000 in the environmental reserve was recorded to cover a lien placed by the USEPA on the Port Salerno Property. During the fiscal year ended February 28, 2002 the Company made no increase in the environmental reserve.

Extraordinary Items: During the year ended February 28, 2001, the Company bought, at a discount, certain debt obligations with various unsecured creditors, resulting in an extraordinary gain of $81,000 ($.04 per share). During the year ended February 29, 2000, the Company settled certain debt obligations with various taxing authorities at a discount, resulting in an extraordinary gain of $655,000 ($.32 per share). There were no income tax effects as a result of these events.

During the year ended February 28, 2002, the Company had extraordinary gains which totaled approximately $6,000. Included in extraordinary gains was the settlement of debt obligation to an unsecured creditor which the Company bought at a discount, resulting in an extraordinary gain of $2,000 ($0.00 per share), and the extinguishment of debt to a vendor for approximately $4,000 ($0.00 per share).

Net Income for the fiscal year ended February 28, 2002 decreased to a Net Loss of $417,000 from a Net Income of $637,000 during the fiscal year ended February 28, 2001. This increase is attributable to a lower level of Gross Profit, slightly lower level of imputed interest and higher level of interest income offset by higher Selling, General and Administrative expenses.

FORWARD-LOOKING STATEMENTS

Information in this Form 10-KSB, including any information incorporated by reference herein, includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended, and is subject to the safe-harbor created by such sections. The Company's actual results may differ significantly from the results discussed in such forward-looking statements.

Statements regarding:

- the effects of certification or qualification of the Company's products;
- the speed of technological change and its effects on the Company's business;
- trends in the industry, including trends concerning consolidation, changes in government military spending, price erosion and competition;

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- sources and availability of liquidity;
- anticipated recovery of volume and price of product sales;
- strategic plans to improve the Company's performance;
- the Company's ability to fill its backlog;
- the Company's ability to sustain or grow bookings and sales;
- the Company's competitive strengths, industry reputation and the nature of its competition;

- the relative importance of patented technology;
- the Company's ability to move into new markets or to develop new products;
- the Company's ability to respond quickly to customers' needs and to deliver products in a timely manner;
- the Company's ability to implement effectively cost-cutting or downsizing measures;
- the Company's compliance with environmental laws, orders and investigations and the future cost of such compliance;
- expectations regarding military and defense spending;
- implementation of the Plan of Reorganization and the Company's ability to make payments required under the Plan of Reorganization or otherwise or to generate sufficient cash from operations or otherwise;
- expectations of being released from certain environmental liabilities and the Company's ability to satisfy such liabilities;
- amounts that the Company may receive (or not receive) upon the sale of certain properties and the expected application of such funds;
- the suitability and adequacy of the Company's headquarters facilities;
- the effects of inflation;
- Section 16(a) compliance; and
- other statements contained in this report that address activities, events of developments that the Company expects, believes or anticipates will or may occur in the future, and similar statements are forward-looking statements.

These statements are based upon assumptions and analyses made by the Company in light of current conditions, future developments and other factors the Company believes are appropriate in the circumstances, or information obtained from third parties and are subject to a number of assumptions, risks and uncertainties. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results might differ materially from those suggested or projected in the forward-looking statements. Factors that may cause actual future events to differ significantly from those predicted or assumed include, but are not limited to:

- the loss of certification or qualification of the Company's products or the inability of the Company to capitalize on such certifications and/or qualifications;
- unexpected rapid technological change;
- a misinterpretation of the Company's capital needs and sources and availability of liquidity;
- a change in government regulations which hinders the Company's ability to perform government contracts;
- a shift in or misinterpretation of industry trends;
- unforeseen factors which impair or delay the development of any or all of its products if such decision is later determined to be in the best interests of the Company;
- inability to sustain or grow bookings and sales;
- inability to capitalize on competitive strengths or a misinterpretation of those strengths;
- the emergence of improved, patented technology by competitors;
- a misinterpretation of the nature of the competition, the Company's competitive strengths or its reputation in the industry;
- inability to respond quickly to customers' needs and to deliver products in a timely manner resulting from unforeseen circumstances;
- inability to generate sufficient cash to sustain operations;
- failure of price or volume recovery;
- failure to successfully implement cost-cutting or downsizing measures, strategic plans or the insufficiency of such measures and plans;
- changes in military or defense appropriations;
- inability to make or renegotiate payments under the Plan;

- o inability to move into new market segments based on unforeseen factors;
- o unexpected impediments affecting ability to fill backlog;
- o inability to be released from environmental liabilities;
- o an increase in the expected cost of environmental compliance based on factors unknown at this time;
- o changes in law or industry regulation;
- o inability to sell certain properties or to obtain expected prices for such properties;
- o unexpected growth or stagnation of the business;
- o unforeseen changes that render the Company's headquarters facilities unsuitable or inadequate to meet the Company's current needs;
- o unforeseen effects of inflation;
- o misrepresentations of Company directors, officers and 10 percent stockholders concerning their compliance with Section 16(a) of the Securities Act of 1934; and
- o other unforeseen activities, events and developments that may occur in the future.

RISK FACTORS

The following important business risks and factors, and those business risks and factors described elsewhere in this report or our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in our forward-looking statements, and which could affect the value of an investment in the Company. All references to "we", "us", "our" and the like refer to the Company.

WE MAY NOT HAVE SUFFICIENT RESOURCES TO CONTINUE AS A GOING CONCERN.

Our consolidated financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities as they become due. Although we have projected that we will be able to generate sufficient funds to support our ongoing operations, we have significant obligations arising from settlements in connection with our bankruptcy necessitating that we make substantial cash payments, which cannot be supported by the current level of operations. We must be able to obtain forbearance or be able to renegotiate our bankruptcy related required payments to unsecured creditors, the U.S. Environmental Protection Agency, the Florida Department of Environmental Protection and certain taxing authorities or raise sufficient cash in order to pay these obligations as currently due, in order to remain a going concern. We continue to negotiate with our unsecured creditors, the USEPA, the FDEP, and taxing authorities in an attempt to arrive at reduced payment schedules. We also have a contingency plan to reduce our size and thereby reduce our cost of operations within certain limitations. However, no assurance can be made that we can reach a suitable agreement with the unsecured creditors or taxing authorities or obtain additional sources of capital and/or cash or that we can generate sufficient cash to meet our obligations over the next year. See "Business - Bankruptcy Proceedings" and "--Environmental Liabilities".

OUR COMPLEX MANUFACTURING PROCESSES MAY LOWER YIELDS AND REDUCE OUR REVENUES.

Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified in an effort to improve yields and product performance. Minute impurities or other difficulties in the manufacturing process can lower yields. Our manufacturing efficiency will be an important factor in our future profitability, and we cannot assure you that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors.

In addition, as is common in the semiconductor industry, we have from time to time experienced difficulty in effecting transitions to new manufacturing

processes. As a consequence, we have suffered delays in product deliveries or reduced yields. We may experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our operating results could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capability if revenues do not increase proportionately.

WE ARE DEPENDENT ON GOVERNMENT CONTRACTS, WHICH ARE SUBJECT TO TERMINATION, PRICE RENEGOTIATIONS AND REGULATORY COMPLIANCE, WHICH CAN INCREASE THE COST OF DOING BUSINESS AND NEGATIVELY IMPACT OUR REVENUES.

All of our contacts with prime U.S. government contractors contain customary provisions permitting termination at any time at the convenience of the U.S. government or the prime contractors upon payment to us for costs incurred plus a reasonable profit. Certain contracts are also subject to price renegotiations in accordance with U.S. government sole source procurement provisions. None of our contracts has been terminated for cause or for the convenience of the U.S. government or prime contractors, or had the prices so renegotiated. Nevertheless, we cannot assure you that the foregoing government contracting risks will not materially and adversely affect our business, prospects, financial condition or results of operations. Furthermore, we cannot assure you that we would be able to procure new government contracts to offset any revenue losses incurred due to early termination or price renegotiation.

Our government business is also subject to specific procurement regulations, which increase our performance and compliance costs. These costs might increase in the future, reducing our margins. Failure to comply with procurement regulations could lead to suspension or debarment, for cause, from government subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, protection of the environment, and accuracy of records. The termination of a government contract or relationship as a result of any of these violations would have a negative impact on our reputation and operations, and could negatively impact our ability to obtain future government contracts.

CHANGES IN GOVERNMENT POLICY OR ECONOMIC CONDITIONS COULD NEGATIVELY IMPACT OUR RESULTS.

A large portion of the Company's sales are to military and aerospace markets which are subject to the business risk of changes in governmental appropriations and changes in national defense policies and priorities. Any such changes could result in reduced demand for the Company's products, which could have a material and adverse effect on the Company's business, prospects, financial condition and results of operations.

Our results may also be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies and similar organizations. Furthermore, our business, prospects, financial condition and results of operations may be adversely affected by the shift in the requirement of the U.S. Department of Defense policy toward the use of standard industrial components over the use of high reliability components that we manufacture. Our results may also be affected by social and economic conditions which impact our sales, including in markets subject to ongoing political hostilities, such as regions of the Middle East.

ENVIRONMENTAL REGULATIONS COULD REQUIRE US TO INCUR SIGNIFICANT COSTS.

In the conduct of our manufacturing operations, we have handled and do handle materials that are considered hazardous, toxic or volatile under federal, state and local laws and, therefore, are subject to regulations related to their use, storage, discharge and disposal. No assurance can be made that the risk of accidental release of such materials can be completely eliminated. In the event of a violation of environmental laws, we could be held liable for damages and the cost of remediation and, along with the rest of the semiconductor industry, we are subject to variable interpretations and governmental priorities concerning environmental laws and regulations. Environmental statutes have been interpreted to provide for joint and several liability and strict liability regardless of actual fault. There can be no assurance that we will not be required to incur costs to comply with, or that our operations, business or financial condition will not be materially affected by, current or future environmental laws or regulations. See "Business - Environmental Liabilities".

OUR BUSINESS IS HIGHLY COMPETITIVE, AND INCREASED COMPETITION COULD REDUCE GROSS PROFIT MARGINS AND THE VALUE OF AN INVESTMENT IN OUR COMPANY.

The semiconductor industry, and the semiconductor product markets specifically, are highly competitive. Competition is based on price, product performance, quality, reliability and customer service. The gross profit margins realizable in our markets can differ across regions, depending on the economic strength of end-product markets in those regions. Even in strong markets, price pressures may emerge as competitors attempt to gain more share by lowering prices.

Competition in the various markets in which we participate comes from companies of various sizes, many of which are larger and have greater financial and other resources than we have and thus can better withstand adverse economic or market conditions. In addition, companies not currently in direct competition with us may introduce competing products in the future.

DOWNTURNS IN THE BUSINESS CYCLE COULD REDUCE THE REVENUES AND PROFITABILITY OF OUR BUSINESS.

The semiconductor industry is highly cyclical. Semiconductor industry-wide sales declined significantly in 2001. Our markets may experience other, possibly more severe and prolonged, downturns in the future. We may also experience significant changes in our operating profit margins as a result of variations in sales, changes in product mix, price competition for orders and costs associated with the introduction of new products.

OUR OPERATING RESULTS MAY DECREASE DUE TO THE DECLINE OF AVERAGE SELLING PRICES IN THE SEMICONDUCTOR INDUSTRY.

Intense competition and a general slowdown in the semiconductor industry worldwide have resulted in decreases in the average selling prices of many of our products. We expect that average selling prices for our products will continue to decline in the future. A decline in average selling prices for our products, if not offset by reductions in the costs of providing these products, would decrease our gross profits and could have a material adverse effect on our business, financial condition and results of operations.

THE ECONOMIC RECESSION MAY CONTINUE TO HAVE NEGATIVE EFFECTS ON OUR BUSINESS.

Our business has been negatively impacted by the economic recession that began the latter part of 2000. The success of ongoing changes in fiscal monetary and regulatory policies worldwide will continue to influence the severity and the length of this recession. If these actions are not successful in spurring overall economic recovery, our business will continue to be negatively impacted

as our customers buy fewer products from us.

UNCERTAINTY OF CURRENT ECONOMIC CONDITIONS, DOMESTICALLY AND GLOBALLY, COULD CONTINUE TO AFFECT DEMAND FOR OUR PRODUCTS AND NEGATIVELY IMPACT OUR BUSINESS.

Current conditions in the domestic and global economies are extremely uncertain. As a result, it is difficult to estimate the level of growth for the economic as a whole. It is even more difficult to estimate growth in various parts of the economy, including the markets in which we participate. Because all components of our budgeting and forecasting are dependent upon estimates of growth in the markets we serve and demand for our products, the prevailing economic uncertainties render estimates of future income and expenditures even more difficult than usual to make. The future direction of the overall domestic and global economies will have a significant impact on our overall performance.

The terrorist attacks in 2001 created many economic and political uncertainties that have severely impacted the global economy. We experienced a further decline in demand for our products after the attacks. The long-term effects of the attacks on our business and the global economy remain unknown. In addition, the potential for future terrorist attacks is creating worldwide uncertainties and makes it very difficult to estimate how quickly the economy will recover and our business will improve.

COST REDUCTION EFFORTS MAY BE UNSUCCESSFUL OR INSUFFICIENT TO IMPROVE OUR PROFITABILITY.

During 2001, we implemented certain cost-cutting measures and we have a plan to implement further cost-saving measures if necessary. The impact of these cost-reduction efforts on our profitability may be influenced by:

- Our ability to successfully complete these ongoing efforts;
- the possibility that these efforts may not generate the level of cost savings we expect or enable us to effectively compete and return to profitability; and
- The risk that we may not be able to retain key employees.

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Since these cost-reduction efforts involve all aspects of our business, they could adversely impact productivity to an extent we did not anticipate. Even if we successfully complete these efforts and generate the anticipated cost savings, there may be other factors that adversely impact our profitability.

WE MAY NOT ACHIEVE THE INTENDED EFFECTS OF OUR NEW BUSINESS STRATEGY, WHICH COULD ADVERSELY IMPACT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In recognition of the changes in global geopolitical affairs and in United States military spending, we are attempting to increase sales of our products for non-military, scientific and industrial niche markets, such as medical electronics, machine tool controls, specialized telecommunications, cellular telephone base stations and LEOS (Low Earth Orbit Satellites) telecommunications networks and other market segments in which purchasing decisions are generally based primarily on product quality, long-term reliability and performance, rather than on product price. We are also attempting to offer additional products to the military markets that are complementary to those we currently sell to the military markets. We cannot assure you that these efforts will be successful and, if they are, that they will have the intended effects of increasing profitability. Furthermore, as we attempt to shift our focus to the sale of products having non-military, non-aerospace applications, we will be subject to greater price erosion and foreign competition.

OUR ABILITY TO INTRODUCE NEW PRODUCTS COULD RESULT IN DECREASED REVENUES AND LOSS OF MARKET SHARE TO COMPETITORS; NEW TECHNOLOGIES COULD ALSO REDUCE THE DEMAND FOR OUR PRODUCTS.

Rapidly changing technology and industry standards, along with frequent new product introductions, characterize the semiconductor industry. Our success in these markets depends on our ability design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. There can be no assurance that we will successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner or that products or technologies developed by others will not render our products or technologies obsolete or noncompetitive. A fundamental shift in technology in our product markets could have a material adverse effect on us. In light of the fact that many of our competitors have substantially greater revenues than us and that we have not spent any funds on research and development in recent years, we may not be able to accomplish the foregoing, which might have a material adverse effect on the Company, our business, prospects, financial condition or results of operations.

LOSS OF, OR REDUCTION OF BUSINESS FROM, SUBSTANTIAL CLIENTS COULD HURT OUR BUSINESS BY REDUCING OUR REVENUES, PROFITABILITY AND CASH FLOW.

During the fiscal year ended February 28, 2002, twelve customers accounted for approximately 79% of our revenues. A loss of these customers, or reduced business from such customers, could have a significant adverse impact on our business and results of operations in future periods. Furthermore, due to industry consolidation, the loss of any one customer may have a greater impact than we anticipate. We cannot guarantee that we will be able to retain long-term relationships or secure renewals of short-term relationships with our more substantial customers in the future.

INADEQUATE AVAILABILITY OF SUPPLIES COULD NEGATIVELY IMPACT OUR ABILITY TO TIMELY PROVIDE PRODUCTS TO CUSTOMERS AND COULD RESULT IN SIGNIFICANTLY INCREASED PRICES.

Our ability to meet customer demands depends, in part, on our ability to obtain timely and adequate delivery of raw materials, parts and finished components from our suppliers. Although we work closely with our suppliers to avoid shortages, there can be no assurances that we will not encounter these problems in the future. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. A reduction or interruption in supplies or a significant increase in the price of one or more supplies could have a material adverse effect on our business.

THE NATURE OF OUR PRODUCTS EXPOSES US TO POTENTIALLY SIGNIFICANT PRODUCT LIABILITY RISK.

Our business exposes us to potential product liability risks that are inherent in the manufacturing and marketing of high-reliability electronic components for critical applications. No assurance cam be made that our product liability insurance coverage is adequate or that present coverage will continue to be available at acceptable costs, or that a

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product liability claim would not materially and adversely affect our business, prospects, financial conditions or results of operations.

WE DEPEND ON THE RECRUITMENT AND RETENTION OF QUALIFIED PERSONNEL, AND OUR FAILURE TO ATTRACT AND RETAIN SUCH PERSONNEL COULD SERIOUSLY HARM OUR BUSINESS.

Due to the specialized nature of our business, our future performance is highly

dependent on the continued services of our key engineering personnel and executive officers. Our prospects depend on our ability to attract and retain qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, prospects, results of operations and financial condition.

PROVISIONS IN OUR CHARTER DOCUMENTS AND RIGHTS AGREEMENT COULD MAKE IT MORE DIFFICULT TO ACQUIRE OUR COMPANY AND MAY REDUCE THE MARKET PRICE OF OUR STOCK.

Our Certificate of Incorporation and Bylaws contain certain provisions, and we have adopted a stockholder rights plan (as more fully described in our current report on Form 8-K filed on June 20, 2001), each of which could delay or prevent a change in control of our company or the removal of management, and which could also deter potential acquirers from making an offer to our stockholders and limit any opportunity to realize premiums over prevailing market prices of our common stock.

ITEM 7. FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Board of Directors and Stockholders of Solitron Devices, Inc.:

We have audited the accompanying consolidated balance sheet of Solitron Devices, Inc. and Subsidiaries as of February 28, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period then ended. These 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solitron Devices, Inc. and Subsidiaries as of February 28, 2002 and the results of their operations and their cash flows for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has certain obligations resulting from its settlement with unsecured creditors and with taxing authorities, the present terms of which the Company is unable to meet, which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Goldstein Golub Kessler LLP
New York, New York
May 30, 2002

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
FEBRUARY 28, 2002

ASSETS	
CURRENT ASSETS:	
Cash	$ 1,335,000
Accounts receivable, less allowance for doubtful accounts of $2,000	965,000
Inventories	2,692,000
Prepaid expenses and other current assets	135,000
Due from S/V Microwave	1,000

Total current assets	$ 5,128,000
PROPERTY, PLANT AND EQUIPMENT, net	477,000
NON-OPERATING PLANT FACILITIES, net of cost to dispose	-0-
OTHER ASSETS	52,000
TOTAL ASSETS	$ 5,657,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of accrued environmental expenses	$ 738,000
Accounts payable-Post-petition	410,000
Accounts payable-Pre-petition, current portion	651,000
Accrued expenses and other liabilities	1,271,000
Accrued Chapter 11 administrative expense	1,000
Total current liabilities	$ 3,071,000
OTHER LONG-TERM LIABILITIES, net of current portion, net of cost to dispose of non-operating facilities	430,000
TOTAL LIABILITIES	$ 3,501,000
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, $.01 par value, authorized 500,000 shares, none issued	--
Common stock, $.01 par value, authorized 10,000,000 shares, 2,070,821 shares issued and outstanding	21,000
Additional paid-in capital	2,617,000
Accumulated deficit	(482,000)
Total stockholders' equity	2,156,000
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 5,657,000

The accompanying notes and independent auditor's report should be read in conjunction with the financial statements.

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED FEBRUARY 28, 2002	FOR THE YEAR ENDED FEBRUARY 28, 2001
Net sales	$ 6,399,000	$ 7,990,000

Cost of sales	5,612,000	5,947,000
Gross profit	787,000	2,043,000
Selling, general and administrative expenses	1,214,000	1,539,000
Operating income (loss)	(427,000)	504,000
Other income (expense):		
Interest expense	(19,000)	(17,000)
Interest expense on unsecured creditors claim	(44,000)	(62,000)
Interest income	75,000	154,000
Other, net	(8,000)	(23,000)
Other income (expense), net	4,000	52,000
Income (loss) before Extraordinary Item	(423,000)	556,000
Extraordinary Item:		
Extinguishment of Debt	6,000	81,000
Net income (loss)	$ (417,000)	$ 637,000
INCOME (LOSS) PER SHARE OF COMMON STOCK:		
Basic		
Income (loss) per share before Extraordinary Item	(0.20)	0.27
Extraordinary Item	0	0.04
Net Income (loss) per share	(0.20)	0.31
Diluted		
Income (loss) per share before Extraordinary Item	(0.20)	0.24
Extraordinary Item	0	0.04
Net Income (loss) per share	(0.20)	0.28
Weighted Average shares outstanding-Basic	2,069,776	2,068,731
Weighted Average shares outstanding-Diluted	2,069,776	2,277,198

The accompanying notes and independent auditor's report should be read in conjunction with the financial statements.

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For The Years Ended February 28, 2002 and 2001

	COMMON STOCK		ADDITIONAL	RETAINED
	NUMBER OF SHARES	AMOUNT	PAID-IN CAPITAL	EARNINGS (ACCUMULAT DEFICIT
Balance, March 1, 2000	2,068,821	$ 21,000	$ 2,617,000	($ 702,0

Issuance of New share Equivalent of Non-converted Old Shares	(90)			
Net Income/(Loss)	--	--	--	637,0
Balance, March 1, 2001	2,068,731	$ 21,000	$ 2,617,000	($ 65,0
Issuance of New share Equivalent of Non-converted Old Shares	2,090			
Net Income/(Loss)	--	--	--	(417,0
Balance, February 28, 2002	2,070,821	$ 21,000	$ 2,617,000	($ 482,0

The accompanying notes and independent auditor's report should be read in conjunction with the financial statements.

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SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED FEBRUARY 28, 2002	FOR THE YEAR ENDED FEBRUARY 28, 2001
Cash flows from operating activities:		
Net income (loss)	($ 417,000)	$ 637,000
Adjustments to reconcile net income (loss) to net cash provided by/used in operating activities:		
Depreciation and amortization	214,000	182,000
Allowance for doubtful accounts	--	1,000
Changes in operating assets and liabilities		
Decrease (increase) in:		
Accounts receivable	(63,000)	88,000
Inventories	(245,000)	63,000
Prepaid expenses and other current assets	(15,000)	(9,000)
Due from S/V Microwave	4,000	(2,000)
Other assets	--	35,000
Increase (decrease) in:		
Accounts payable	30,000	265,000
Accounts payable-pre-petition	144,000	(60,000)
Accrued expenses and Other Liabilities	(48,000)	60,000
Accrued Chapter 11 expenses	--	(1,000)
Accrued environmental expenses	108,000	108,000
Other long-term liabilities	(280,000)	(199,000)
Total adjustments	(151,000)	531,000
Net cash provided by/used in operating Activities	($ 568,000)	$ 1,168,000

Cash flows from investing activities:		
Additions to property, plant and equipment	(287,000)	(162,000)
Net increase/(decrease) in cash	(855,000)	1,006,000
Cash at beginning of year	2,190,000	1,184,000
Cash at end of year	$ 1,335,000	$ 2,190,000
Supplemental disclosures of cash flow information:		
Interest paid	$ 63,000	$ 79,000

The accompanying notes and independent auditor's report should be read in conjunction with the financial statements.

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SOLITRON DEVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of Solitron Devices, Inc. and its wholly owned Subsidiaries (collectively the "Company"). All significant inter-company balances and transactions have been eliminated in consolidation.

Principal Business Activity:

The Company designs, develops, manufactures and markets solid-state semiconductor components and related devices primarily for the military and aerospace markets.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets.

Non-Operating Plant Facility:

The facility that is no longer being utilized for operations is being carried at its estimated fair market value as a non-current asset. For reporting purposes, it is netted against the cost necessary to dispose of the facility. The facility

is not being depreciated.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and trade receivables. The Company places its cash with high credit quality institutions. At times such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in such account and believes that it is not exposed to any significant credit risk on the account. With respect to the trade receivables, most of the Company's products are custom made pursuant to the contracts whose end products are sold to the United States Government. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for potential credit losses. Actual losses and allowances have been within Management's expectations.

Revenue Recognition:

Revenue is recognized upon shipment; however, the Company may receive payment of some contracts in advance. When received, these amounts are deferred and are recognized as revenue in the period in which the related products are shipped.

Income Taxes:

Income taxes are accounted for under the asset and liability method of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and

1. Summary of Significant Accounting Policies (continued)

liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance.

Computation of Net Income (Loss) per Share

Basic earnings (loss) per common share are computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock. Incremental shares of 208,467 were used in the calculation of diluted earnings per common share in 2001. In the fiscal year ended February 28, 2002 diluted earnings per common share were not computed because the effect of the incremental shares would be anti-dilutive. The incremental shares were computed based on stock options outstanding, using the treasury stock method.

Stock Based Compensation:

The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" in 1997. SFAS 123 provides the adoption of a fair value method of accounting for stock-based compensation plans. The Company can elect continuation of accounting under Accounting Principles Board ("APB") Opinion No. 25 Accounting For Stock Issued to Employees, and related interpretations with supplemental disclosures for Stock Based Compensation issued to employees. The Company has chosen to account for all stock based arrangements to employees under APB 25 and make the related disclosures under SFAS 123.

New Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Going Concern and Petition in Bankruptcy:

The Company's consolidated financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities as they become due. Although the Company has projected that it will be able to generate sufficient funds to support its ongoing operations, it has significant obligations arising from settlements in connection with its bankruptcy necessitating it to make substantial cash payments, which cannot be supported, by the current level of operations. The Company must be able to obtain forbearance or be able to renegotiate its bankruptcy related required payments to unsecured creditors, the United States Environmental Protection Agency ("USEPA"), the Florida Department of Environmental Protection ("FDEP"), and certain taxing authorities or raise sufficient cash in order to pay these obligations as currently due, in order to remain a going concern.

2. Going Concern and Petition in Bankruptcy (continued):

The Company continues to negotiate with its unsecured creditors, the USEPA, the FDEP, and taxing authorities in an attempt to arrive at reduced payment schedules. The Company has a contingency plan to reduce its size and thereby reduce its cost of operations within certain limitations. However, no assurance can be made that the Company can reach a suitable agreement with the unsecured creditors or taxing authorities or obtain additional sources of capital and/or cash or that the Company can generate sufficient cash to meet its obligations over the next year.

The financial statements do not include any adjustments to reflect the possible future effect on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Petition in Bankruptcy

On January 24, 1992, the Company filed voluntary petitions in the United States Bankruptcy Court for the Southern District of Florida seeking to reorganize under Chapter 11 of the federal Bankruptcy code. The Company was authorized to continue in the management and control of its business and property as debtor-in-possession under the Bankruptcy Code.

On August 20, 1993 the Company's Plan of Reorganization, as amended and modified (the "Plan"), was confirmed by the Bankruptcy Court and the Company emerged from bankruptcy on August 30, 1993. On July 12, 1996 the Bankruptcy Court officially closed the case.

(a) The Company is required to make quarterly payments to holders of unsecured claims until they receive 35 percent of their pre-petition claims. At February 28, 2002 the Company is currently scheduled to pay approximately $1,987,000 to holders of allowed unsecured claims in quarterly installments of approximately $62,000. As of February 28, 2002, the present value of this amount, $1,071,000, is accrued as a pre-petition liability with imputed interest recognized in the Statement of Operations.

(b) Beginning on the later of (i) the payment of all administrative claims and all unsecured claims, but not later than 18 months after the Effective Date (August 30, 1993) and (ii) the date the Company's net after tax income exceeds $500,000, the Company will pay (on an annual basis) each of (x) the holders of unsecured claims (pro rata) and (y) Vector, 5% of its net after tax income in excess of $500,000 until the tenth anniversary of the Effective Date, up to a maximum aggregate of $1,500,000 of such payments to the holders of unsecured claims (pro rata) and up to a maximum aggregate of $1,500,000 of such payments to Vector. As the Company earned $637,000 in the fiscal year ended February 28, 2001, net after the accrual of $15,000, it distributed approximately $7,500 to its unsecured creditors as well as approximately $7,500 to Vector and its successors in interest.

(c) Under the Plan, the Company is required to remediate its non-operating facility located in Port Salerno and its former facility located in Riviera Beach, Florida. The Plan contemplated that monies to fund the remediation will be made available from the proceeds of the sale or lease of the properties, to the extent that the Company is successful in its efforts to sell or lease such properties. The Riviera Beach Property was sold on October 12, 1999 by the Company. Under the terms of the sale, the USEPA received the net proceeds of $419,000. USEPA also received approximately $19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. Pursuant to the Plan, unless otherwise approved by the (FDEP), the Port Salerno Facility can not be sold unless the price for such property equals or exceeds the lesser of (i) 75% of its appraised value or (ii) the estimated cost of its remediation. Further, pursuant to the Plan, a purchaser of this facility would not be liable for existing environmental

2. Going Concern and Petition in Bankruptcy (continued):

problems under certain conditions. In connection with facilitating the remediation of the property, the Company will also, to the extent the proceeds from the sale or lease of these properties are not sufficient to pay for the remediation, be required to escrow the following amounts on a monthly basis beginning on September 30, 1995: (i) year 1 - $5,000 per month; (ii) year 2 -

$7,500 per month; (iii) year 3 - $10,000 per month; and (iv) $10,000 per month thereafter until remediation is completed. The Company has notified FDEP of its inability to pay pursuant to this schedule and is making payments at the rate of $1,000 per month. As of February 28, 2002, the Company has deposited $78,000 into the escrow accounts.

(d) The Company has paid all of the allowed administrative claims and allowed wage claims since August 1993. The Company is still required to pay allowed tax claims to Martin County, Florida, estimated at approximately $260,000, including approximately $66,000 of interest.

The allowed tax claims payable to the IRS have been completely settled by the Company on March 30, 1999, when it completed making payments of its 1987 tax obligations and interest. These tax claims do not include an unsecured claim of $680,000 owed to the State of California for income taxes for years prior to 1982.

The Plan provided for the distribution of common stock of the Company such that, post-petition, the Company's common stock would be held as follows:

PARTY-IN-INTEREST	COMMON STOCK
Vector	25%
Unsecured Creditors	40%
Company's President	10%
Pre-Petition Stockholders	20%
Reserved for future issuance under an employee stock incentive plan to be issued based upon the terms and conditions of the plan at the discretion of the Board of Directors	5%
	100%

On October 4, 1994, the Company and Vector agreed that Vector's 25% stock would be distributed among various parties. Vector participants were: Vector principal (Howard White) who received 273,943 shares (subsequently sold to Inversiones Globales); AHI Drillings, Inc. who received 77,037 shares; Cointrol Credit Co. II who received 20,095 shares; Service Finance who received 77,037 shares; Trans Resources who received 77,037 shares; and Martin Associates who received 22,848 shares. The 273,943 shares owned by Inversiones Globales are not subject to the voting restrictions, while the balance of the parties will continue to be subjected to the voting restrictions as long as they or their affiliates hold the Company's stock. Based solely on the Company's knowledge (and not from any filings which may have to be made with the SEC), and as the result of an out of court agreement made subsequent to a lawsuit filed against Vector by John Stayduhar, a previous Chairman/CEO of the Company, shares held by Inversiones Globales (174,000), by AHI Drillings, Inc. (77,037), by Service Finance (77,037), by Trans Resources (77,037), and by Martin Associates (22,737) were transferred to Mr. Stayduhar. This would give Mr. Stayduhar approximately 20.66% of the shares of the Company.

3. Inventories:

As of February 28, 2002, inventories consist of the following:

Raw Materials	$1,388,000

Work-In-Process and Finished Goods	1,304,000
	$2,692,000

4. Property, Plant and Equipment:

As of February 28, 2002, property, plant, and equipment consist of the following:

		ESTIMATED USEFUL LIFE
Leasehold Improvements	$ 626,000	The remaining term of the lease
Machinery and Equipment	1,758,000	5 years
	$2,384,000	
Less Accumulated Depreciation And Amortization	1,907,000	
	$ 477,000	
Non-operating Plant Facilities	$ 895,000	
Less: cost to dispose of non-operating Plant Facilities	($895,000)	
	-0-	

Non-operating plant facilities at February 28, 2002 represent the Company's Port Salerno facility, which is no longer being used in operations.

Depreciation and amortization expense was $214,000 and $182,000 for 2002 and 2001, respectively.

5. Accrued Expenses:

As of February 28, 2002 accrued expenses and other liabilities consist of the following:

Payroll and related employee benefits	$ 246,000
Property taxes	216,000
Other liabilities	42,000
Interest Payable	767,000
	$1,271,000

6. Other Long-Term Liabilities:

As of February 28, 2002, other long-term liabilities consist of the following pre-petition items:

Accrued Environmental Expenses	$ 806,000

Accounts Payable-Pre-petition	421,000
Deferred Rent	9,000
County Property Tax Payable	70,000
	$1,306,000
Less: non-current portion of cost to dispose of non-operating Facilities	($876,000)
	$ 430,000

Contractual or estimated payment requirements on other long-term liabilities excluding amounts representing interest during the next five years and thereafter are as follows. It is reasonably possible that the estimates could change in the near term:

YEAR ENDING FEBRUARY 28	TOTAL
2003	$ 344,000
2004	356,000
2005	50,000
2006	9,000
2007	
Thereafter	547,000
Subtotal	1,306,000
Less: value netted against assets	(876,000)
Net Long Term Liabilities	$ 430,000

Imputed interest expense for fiscal years ended February 28, 2002 and 2001 amounted to $44,000 and $62,000 relating to accounts payable - pre-petition.

7. Income Taxes:

At February 28, 2002, the Company has net operating loss carryforwards of approximately $15,651,000 that expire through 2022. Such net operating losses are available to offset future taxable income, if any. As the utilization of such operating losses for tax purposes is not assured, the deferred tax asset has been fully reserved through the recording of a 100% valuation allowance. Should a cumulative change in the ownership of more than 50% occur within a three-year period, there could be an annual limitation on the use of the net operating loss carryforward.

Deferred tax assets are comprised of the following at February 28, 2002:

Loss carry forwards	$5,947,000
Accounts Receivable Reserve	2,000
Inventory Reserves	3,242,000
Gross deferred tax asset	9,191,000
Deferred tax asset valuation allowance	(9,191,000)
Net deferred tax	$ --

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

7. Income taxes (continued):

A reconciliation of the provision for income taxes to the amount calculated using the statutory federal rate (34%) for fiscal year end February 28, 2001 and 2002 is as follows:

	2002	2001
Income Tax Provision at Federal Statutory Rates	$ (142,000)	$ 204,000
State Taxes	(16,000)	38,000
Utilization of Net Operating Loss Carry forward		(242,000)
Increase in Valuation Allowance	158,000	--
Income Tax Provision	$ --	$ --

8. Stock Options:

Pursuant to agreements dated October 20, 1992 and August 20, 1993, the Company's President was granted options, which entitle him to purchase 8.5% of the common stock of the Company (175,636 shares at February 28, 1999, subject to adjustment as defined in the Agreement) for an aggregate exercise price of $21,955. These options are set to expire during 2002, 2003, 2004 and 2005 in equal amounts. The options are fully vested.

On July 17, 2000 the Board of Directors granted Stock options to certain key employees. The options, which become vested on July 18, 2001, were for a total number of 32,750 shares and the exercise price was fixed at $0.670 per share, which was the price on the OTCBB at the time of the grant. The options are exercisable through July 17, 2010. In December 2000 another grant equal to 10% of the outstanding shares (206,873) was made to Mr. Saraf at the exercisable price of $0.400 per share. Fifty percent (50%) of the total number of shares is immediately exercisable and the other 50% vests in five equal installments over the following five years.

The Company complies with SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION." As permitted by SFAS No. 123, the Company continues to follow the measurement provisions of Accounting Principles Board Opinion No. 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES," and does not recognize compensation expense for its stock based incentive plan. Had compensation cost been determined based on the fair value on the grant dates consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro-forma amounts indicated below.

	FOR THE YEAR ENDED FEBRUARY 28, 2002	FOR THE YEAR ENDED FEBRUARY 28, 2001
Net Results:		
As reported	$ (417,000)	$ 637,000
Pro-forma	(437,000)	617,000
Earnings per share:		
As reported - basic	(0.20)	.31
- Diluted	(0.20)	.28
Pro-forma - basic	(0.21)	.30
- Diluted	(0.21)	.27

The pro-forma amounts may not be indicative of future pro-forma income and earnings per share.

SOLITRON DEVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

8. Stock Options (continued):

The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions applied to grants in 2001:

	2001
Dividend Yields	0.0%
Expected Volatility	635.4%
Risk-free Interest Rates	6.0%
Expected Life (in years)	10.0

Because the determination of the fair value of all options is based on the assumptions described in the preceding paragraph and, because additional option grants are expected to be made each year, the above pro-forma disclosures are not representative of pro-forma effects on reported net income or loss for future years.

Below is a summary of the Company's Stock Option Plan.

	SHARES	AVERAGE PRICE
Outstanding February 29, 2000	213,636	0.245
Granted	239,623	0.437
Expired or Canceled	(2,000)	0.636
Outstanding	451,259	0.345
Granted	--	--
Expired or Canceled	(6,750)	0.657
Outstanding February 28, 2002	444,509	$ 0.340

There were no options granted during the year ended February 28, 2002. The weighted average fair value of options granted during the year ended February 28, 2001 was $0.43.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2002:

	OPTIONS OUTSTANDING			EXERCISABLE OPTI	
		WEIGHTED AVERAGE			WE
RANGE OF EXERCISE PRICES	NUMBER OF OUTSTANDING SHARES AT 2/28/02	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	NUMBER AT 2/28/02	A EX

$ 0.125	$ 0.125	175,636	3 years	$ 0.125	175,636	$
$ 0.156	$ 0.156	8,000	5 years	$ 0.156	8,000	$
$ 0.400	$ 0.400	206,873	9 years	$ 0.400	124,124	$
$ 0.625	$ 0.625	21,000	7 years	$ 0.625	21,000	$
$ 0.670	$ 0.670	27,500	8 years	$ 0.670	27,500	$
$ 2.500	$ 2.500	5,500	3 years	$ 2.500	5,500	$
		444,509			361,760	

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SOLITRON DEVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

9. Employee Benefit Plans:

The Company has a 401K and Profit Sharing Plan (the "Profit Sharing Plan") in which substantially all employees may participate after one year of service. Contributions to the Profit Sharing Plan by participants are voluntary. The Company may match participant's contributions up to 25% of 4% of each participant's annual compensation. In addition, the Company may make additional contributions at its discretion. The Company did not contribute to the Profit Sharing Plan during the fiscal years ended February 28, 2002 and 2001.

10. Export Sales and Major Customers:

Revenues from domestic and export sales to unaffiliated customers are as follows:

	FISCAL YEAR ENDED FEBRUARY 28, 2002	FISCAL YEAR ENDED FEBRUARY 28, 2001
Export sales:		
Europe	$ 201,000	$ 505,000
Canada and Latin America	171,000	112,000
Far East and Middle East	105,000	149,000
United States	5,922,000	7,224,000
	$6,399,000	$7,990,000

Sales to the Company's top three customers accounted for 56% of net sales for the year ended February 28, 2002 as compared with 62% of the Company's net sales for the year ended February 28, 2001.

Sales to Raytheon Company accounted for 39% for the year ended February 28, 2002 and 35% for the year ended February 28, 2001. Sales to Lockheed Martin accounted for 6% for the year ended February 28, 2002 and 14% for the year ended February 28, 2001.

During the fiscal year ended February 28, 2002, the US Government was the only other customer who accounted for 10% or more of net sales with a total that represented 11% as compared to just under 13% for the fiscal year ended February 28, 2001.

11. Extraordinary Item:

During the year ended February 28, 2001, the Company bought, at a discount, certain debt obligations with various unsecured creditors, resulting in an extraordinary gain of $81,000 ($.04 per share). During the year ended February 28, 2002, the Company had extraordinary gains, which totaled approximately $6,000. Included in extraordinary gains was the settlement of a debt obligation to an unsecured creditor which the Company bought at a discount, resulting in an extraordinary gain of $2,000 ($0.00 per share), and the extinguishment of debt to a vendor for approximately $4,000 ($0.00 per share). There were no income tax effects as a result of these events.

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SOLITRON DEVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

12. Commitments and Contingencies:

Employment Agreement:

In December 2000, the Company entered into a five year employment agreement with its President. This agreement provides, among other things, for annual compensation of $240,000 and a bonus pursuant to a formula. The agreement stipulates that the President shall be entitled to a bonus equal to fifteen percent (15%) of pre-tax income in excess of Two Hundred Fifty Thousand Dollars ($250,000). For purposes of the agreement, "pre -tax income" shall mean net income before taxes, excluding (i) all extraordinary gains or losses, (ii) gains resulting from debt forgiven associated with the buyout of unsecured creditors, and (iii) any bonuses paid to employees. The bonus payable hereunder shall be paid within ninety (90) days after the end of the fiscal year. The employer's regularly retained independent auditor, shall make the determination of "pre-tax income" after consultation with the Board of Directors Compensation Committee, which determination shall be final and conclusive on the parties hereto. The President of the Company voluntarily took a 30 % reduction in compensation at the time that salary reductions, ranging from 6% to 12%, went into effect for all of the employees of the Company.

The President's employment agreement stipulates, in Article 2.2, "Option to Extend", that the contract is automatically extended for one year periods unless a notice is given by either party one year prior to the yearly anniversary.

Upon execution of the agreement, the President received a grant of options to purchase ten percent (10%) of the outstanding shares of the Company's common stock, par value $.01 calculated on a fully diluted basis, at an exercise price per share equal to the closing asking price of the Company's common stock on the NASDAQ Over-the-Counter Bulletin Board (the "OTCBB") on the date of the grant ($0.40). Fifty percent (50%) of the Initial Stock Options granted are vested immediately upon grant. The remaining fifty percent (50%) of the Initial Stock Options will vest in equal amounts on each of the first five anniversaries of the date of grant.

These stock options are in addition to, and not in lieu of or in substitution for, the Stock Options (the "1992 Stock Options") granted to employee pursuant to the Incentive Stock Option Plan Agreement under Solitron Devices, Inc. 1987 Stock Option Plan dated October 20, 1992 between the Company and the employee.

In July 2001, the Board of Directors approved a bonus payment to the President of $56,430 for the year ended February 28, 2001. This bonus was paid out in cash in July 2001, and charged to expense in February 2001. No bonus was accrued for the year ending February 28, 2002.

Environmental Compliance:

The Company is currently engaged in negotiations with the United States Environmental Protection Agency ("USEPA") to resolve the Company's alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida; Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Disposal Superfund Site, Santa Barbara County, California; and Solitron Devices Site, Riviera Beach, Florida. USEPA contends that the Company is liable for a share of past and future costs incurred by USEPA in connection with the investigation and remediation of the four (4) sites. At a meeting with USEPA on March 23, 2001, USEPA contended that the Company's alleged share of liability at the four (4) sites totals approximately $8 million, which USEPA broke down on a site by site basis as follows: Solitron Microwave, Port Salerno-$3.8 million; Petroleum Products - $150,000; Casmalia Disposal - $2.7 million; and Solitron Devices, Riviera Beach - $1 million.

In addition to the claims asserted by USEPA against the Company at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites, claims have been asserted against the Company by groups of alleged responsible parties formed at each of these two sites for all past and future cleanup expenses incurred or to be incurred by the respective groups. During the negotiations with USEPA to resolve the Company's alleged liability at all four (4) sites, the Company was advised by USEPA that a settlement with USEPA would most likely resolve the claims of the groups of

12. Commitments and Contingencies (continued)

alleged responsible parties formed at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites. Preliminary communications with attorneys representing the respective groups support USEPA's representations in this regard.

The Company contends that the claims of USEPA and the private parties referenced above were discharged in bankruptcy pursuant to the Bankruptcy Court's Order Confirming Solitron's Fourth Amended Plan of Re-Organization, entered in August 1993. Nevertheless, the Company is negotiating with USEPA to settle its outstanding liability at all four (4) sites based on an ability to pay ("ATP") determination. Under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"), the United States may enter into ATP settlements with individuals and businesses for recovery of response costs and performance of cleanup work in appropriate cases. The ATP settlement process is reserved for potentially responsible parties ("PRPs") who demonstrate to USEPA's satisfaction that payment of the amount sought by the government is likely to put an entity out of business or otherwise jeopardize its viability by creating an undue financial hardship. An undue financial hardship occurs if, in the opinion of USEPA, satisfaction of the environmental claim will deprive a PRP of ordinary and necessary assets or cause a PRP to be unable to pay for ordinary and necessary business expenses and/or ordinary and necessary living expenses. The ATP settlement process provides for a reduction in the proposed settlement to an amount that, in the USEPA's estimation, is not likely to create an undue financial hardship.

In connection with the foregoing settlement negotiations, the Riviera Beach Property was sold on October 12, 1999 by the Company. Under the terms of the sale, the USEPA received the net proceeds of $419,000. USEPA also received approximately $19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. Additionally, the Company has offered and USEPA has agreed to accept the net proceeds of the sale resulting from the sale of the

Solitron Microwave Port Salerno Site. Sale of the Port Salerno Site is currently the subject of negotiations between the Company and a prospective purchaser. In addition, USEPA has advised the Company that the Company will be required to contribute additional funds to effect the settlement. The Company was advised in March 2000 that USEPA had determined initially that USEPA's model evaluating the Company's ability to pay determined that the Company could contribute an additional $80,000 plus a percentage of profits to effect the settlement. On May 20, 2002, the Company submitted it's ATP settlement offer to USEPA, the substantial provisions of which included payment of the sum of $65,000.00 over two years, and payment to USEPA of 5% of Solitron's net after tax income over the first $500,000.00, if any, for years 3-7 following the effective date of the settlement. USEPA is currently considering the Company's offer. Once the Company and USEPA have reached agreement on the ATP negotiations, it is anticipated that USEPA will recommend to the PRP groups at the Petroleum Products Corporation and Casmalia Disposal Superfund Sites that the respective groups release the Company from further liability at either site upon the Company's compliance with the ATP settlement terms and conditions.

12. Commitments and Contingencies (continued)

Operating Leases:

The Company has entered into a new lease agreement for its production facility. The lease has a 10-year term which expires in the year 2011 and has no option to renew under current terms. The lease is subject to escalations based on operating expenses. Future minimum lease payments for all non-cancelable operating leases are as follows:

FISCAL YEAR ENDING FEBRUARY 28/29	AMOUNT
2003	379,000
2004	390,000
2005	402,000
2006	414,000
2007	427,000
Thereafter	2,248,000
Total	4,260,000

Total rent expense was $353,000 for the year ended February 28, 2002 as compared with $317,000 for the year ended February 28, 2001. These figures include rental of storage space, which is made on a month-to-month basis.

In connection with the Vector Purchase Agreement, the Company entered into a sublease agreement whereby S/V Microwave had agreed to reimburse the Company for one-third of the above noted rental obligations in exchange for S/V Microwave's use of approximately one-third of the facility. From January 1997 through December 2001, S/V Microwave made these payments directly to the landlord. S/V Microwave terminated the sublease at its original termination date of December 31, 2001 and has left the premises. The Company renegotiated a new lease to exclude the area previously utilized by S/V Microwave. The Company, accordingly with the terms of the new lease, had walls constructed and utilities divided so that the space previously occupied by S/V Microwave would be completely separate from the space occupied by The Company. The new lease is for a term of ten years ending December 31, 2011 and does not contain a renewal option.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The table below sets forth the name, age, and position of the directors and executive officers of the Company. The table below also sets forth the year in which each of such directors was first elected to the Board and the year in which the term of each of such directors expires. Pursuant to the Company's Certificate of Incorporation, the Board of Directors is divided into three classes, each of which consists of (as nearly as may be possible) one third of the directors. Directors are elected for three-year terms. Pursuant to the Plan of Reorganization, all shares of Common Stock issued to Vector and its participants and to the holders of allowed unsecured claims must be voted for all purposes (including the election of members of the Board of Directors) as directed by the Board of Directors. Pursuant to the Plan of Reorganization, Vector originally owned 25% and the holders of allowed unsecured claims own an aggregate of 40% of all shares of Common Stock issuable pursuant to the Plan of Reorganization (other than shares issuable to Mr. Saraf upon the exercise of options granted prior to the Effective Date). On October 4, 1994, the Company and Vector agreed that 25% of Vector stock would be redistributed between six parties (see Note 2 the Consolidation Financial Statements). Five original Vector participants continue to be subject to the voting restrictions as long as they or their affiliates hold Solitron stock.

NAME	AGE	POSITION WITH SOLITRON	YEAR FIRST BECAME DIRECTOR	TERM AS DIRECTOR EXPIRES(1)
Shevach Saraf	59	Chairman of the Board, Chief Executive Officer, President and Treasurer	1992	Expired
Mr. Jacob Davis	65	Director	1996	Expired
Mr. Joseph Schlig	74	Director	1996	Expired

(1) The term of each Director has expired. Each Director shall continue in office until his successor is elected at the next annual meeting of stockholders.

Mr. Shevach Saraf has been President of the Company since November 1992, Chief Executive Officer of the Company since December 1992 and Chairman of the Board since September 1993. He has 41 years experience in operations and engineering management with electronics and electromechanical manufacturing companies.

Before joining Solitron in 1992, Mr. Saraf was Vice President of Operations and a member of the Board of Directors of Image Graphics, Inc., a military and commercial electron beam recorder manufacturer based in Shelton, CT. As head of

the Company's engineering, manufacturing materials and field service operations, he turned around the firm's chronic cost and schedule overruns to on-schedule and better-than-budget performance. Earlier, he was President of Value Adding Services, a management consulting firm in Cheshire, CT. The Company provided consulting and turnaround services to electronics and electromechanical manufacturing companies with particular emphasis on operations. From 1982-1987, Mr. Saraf was Vice President of operations for Harmer Simmons Power Supplies, Inc., a power supplies manufacturer in Seymour, CT. He founded and directed all aspects of the Company's startup and growth, achieving $12 million in annual sales and a staff of 180 employees. Mr. Saraf also held executive positions with Photofabrication Technology, Inc. and Measurements Group of Vishay Intertechnology, Inc.

Born and raised in Tel Aviv, Israel, he served in the Israeli Air Force from 1960-1971 as an electronics technical officer. He received his master's in business administration from Rensselaer Polytechnic Institute, Troy, NY, and his master's in management from Rensselaer at Hartford (formerly known as Hartford [CT] Graduate Center). He also received associate degrees from the Israeli Institute of Productivity, the Teachers & Instructors Institute, and the Israeli Air Force Technical Academy.

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Mr. Jacob (Jay) A. Davis was elected a Director of the Company on August 26, 1996. He is Vice President of Business Planning and Finance for AET, Inc, a developing, Melbourne, Florida based software company. In 1994 and 1995, he was Visiting Professor in Engineering Management at Florida Institute of Technology. He is presently Vice-Chairman of the Brevard SCORE Chapter and devotes significant time to counseling with local businesses. He is an active member of the International Executive Service Corps (IESC) serving in South Russia during May and June of 1996.

Prior to joining AET, Mr. Davis was with Harris Semiconductor for 26 years. During the last 12 years with Harris Semiconductor, he was Vice President-General Manager of the Military and Aerospace Division, the Custom Integrated Circuits Division and the Harris Microwave Division. Dr. Davis has served in a variety of other capacities at Harris Semiconductor including Vice President of Engineering, Director of Manufacturing, Director of Special Services, and Device Research Engineer.

Mr. Davis received a doctor of philosophy from Purdue University in 1969 and a bachelors of science in electrical engineering from North Carolina State University. He is a Member of the IEEE and the Electrochemical Society, and has served on a variety of advisory boards for several Universities. He holds four patents and has given a number of overview papers and invited presentations at several conferences.

Mr. Joseph Schlig was elected a Director of the Company on August 26, 1996. He is Managing Director of Fairhaven Associates, a professional consulting firm supporting small and medium size businesses in strategic planning; financial, marketing and operations management and organizational development. From 1995 to 1997, Mr. Schlig also served as Chief Financial Officer of Industrial Technologies, Inc. For the prior five years, Mr. Schlig was a business consultant to private companies and to the State of Connecticut Department of Economic Development. Mr. Schlig has many years of business experience including Director of Marketing, Latin America for ITT and Director of International Operations for Revlon. Mr. Schlig has also operated several small/medium size companies in both the public and private sectors. He also serves as a director of the Trumbull Technology Foundation, the Bridgeport Economic Development Corporation, and the MIT Enterprise Forum of Connecticut. Mr. Schlig has an engineering degree from the Stevens Institute of Technology and an MBA from the Harvard Business School where he was a Baker Scholar. Mr. Schlig is a member of the Audit and Compensation Committees.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and executive officers of the Company and ten percent stockholders of the Company to file initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company with the Securities and Exchange Commission. Directors, executive officers, and ten-percent stockholders are required to furnish the Company with copies of all Section 16(a) forms they file. Based upon a review of the copies of Section 16(a) filings furnished to the Company and written representations from the Company's current executive officers, directors and ten percent stockholders, the Company believes that during the fiscal year ended February 28, 2002, directors, executive officers and ten percent stockholders of the Company complied with Section 16(a) filing requirements applicable to them.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides certain summary information concerning compensation paid by the Company, to or on behalf of the Company's Chief Executive Officer for the fiscal years ended February 28, 2002, 2001 and February 29, 2000.

	ANNUAL COMPENSATION			
NAME AND PRINCIPAL POSITION	YEAR ENDED FEBRUARY 28/29	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPEN-SATION($)
Shevach Saraf	2000	166,727	40,000	19,303
Chairman of the Board.,	2001	184,459	58,327	111,439
Chief Executive Officer,	2002	188,030	56,430	53,441
President and Treasurer				

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In December 2000, the Company entered into a five-year employment agreement with its President and CEO. This agreement provides, among other things, for annual compensation of $240,000 and a bonus pursuant to a formula. The agreement stipulates that the President shall be entitled to a bonus equal to fifteen percent (15%) of pre-tax income in excess of Two Hundred Fifty Thousand Dollars ($250,000). For purposes of the agreement, "pre -tax income" shall mean net income before taxes, excluding (i) all extraordinary gains or losses, (ii) gains resulting from debt forgiven associated with the buyout of unsecured creditors, and (iii) any bonuses paid to employees. The bonus payable hereunder shall be within ninety (90) days after the end of the fiscal year. The determination of "pre-tax income" shall be made by the employer's regularly retained independent auditor, after consultation with the Board of Directors Compensation Committee, which determination shall be final and conclusive on the parties hereto.

The President's employment agreement stipulates that the contract is automatically extended for one year periods unless a notice is given by either party one year prior to the yearly anniversary.

Upon execution of the agreement, the President received a grant to purchase ten percent (10%) of the outstanding shares of the Company's common stock, par value $.01 calculated on a fully diluted basis, at an exercise price per share equal

to the closing asking price of the Company's common stock on the NASDAQ Over-the-Counter Bulletin Board (the "OTCBB") on the date of the grant ($0.40). Fifty percent (50%) of the initial stock options granted are vested immediately upon grant. The remaining fifty percent (50%) of the initial stock options will vest in equal amounts on each of the first five anniversaries of the date of grant.

These stock options are in addition to, and not in lieu of or in substitution for, the Stock Options (the "1992 Stock Options") granted to employee pursuant to the Incentive Stock Option Plan Agreement under Solitron Devices, Inc. 1987 Stock Option Plan dated October 20, 1992 between the Company and the employee.

The President of the Company voluntarily took a 30% reduction in compensation at the time that salary reductions, ranging from 6% to 12%, went into effect for all of the employees of the Company.

In July 2001, the Board of Directors approved a bonus payment to the President of $56,430 for the year ended . This bonus was paid out in cash in July 2001, and charged to expense in February 2001. In the fiscal year 2002, no bonus has been accrued.

Executive officers of the Company may also participate in the Company's 1987 Stock Option Plan, the Company's Deferred Compensation Plan and the Company's Employee 401-K and Profit Sharing Plan (the "Profit Sharing Plan"). During the fiscal year ended , no amounts were deferred by executive officers under the Company's Deferred Compensation Plan and the Company did not match any employee contributions to the Profit Sharing Plan.

Aggregated Option Exercises and Fiscal Year-End Option Values

The following table sets forth certain summary information covering unexercised options to purchase the Company's Common Stock as of February 28, 2002 held by the Company's Chief Executive Officer. The Company's Chief Executive Officer did not exercise any stock options during the fiscal year ended February 28, 2002.

NAME AND PRINCIPAL POSITION	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS HELD AT FISCAL YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS HELD AT FISCAL YEAR END ($)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Shevach Saraf, Chairman of the Board, Chief Executive Officer, President & Treasurer	299,760	82,749	$59,952	$16,550

Director Remuneration

Each director who is not employed by the Company receives $1,000 for each meeting of the Board he attends and $250 for each committee meeting he attends on a date on which no meeting of the Board is held. In addition, all out-of-pocket expenses incurred by a director in attending Board or committee meetings are reimbursed by the Company.

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Total fees paid to all directors for attendance at Board and committee meetings amounted to $8,000 for the fiscal year ended February 28, 2002.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of February 28, 2002 by (i) all directors, (ii) the Chief Executive Officer, (iii) all officers and directors of the Company as a group, and (iv) each person known by the Company to beneficially own in excess of 5% of the Company's outstanding Common Stock.

The Company does not know of any other beneficial owner of more than 5% of the outstanding shares of Common Stock other than as shown below. Unless otherwise indicated below, each stockholder has sole voting and investment power with respect to the shares beneficially owned. Except as noted below, all shares were owned directly with sole voting and investment power.

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF OUTSTANDING SHARES (1)
Shevach Saraf 3301 Electronics Way West Palm Beach, FL 33407	602,351 (2)	29.11%
Dr. Jacob Davis 370 Franklyn Avenue Indialantic, FL 32903	13,000 (2)	*
Joseph Schlig 129 Mayfield Drive Trumbull, CT 06611	13,000 (2)	*
All Executive Officers and Directors as a Group (3 persons)	628,351 (2)	30.37%
John Stayduhar Revocable Trust c/o Boyes & Farina 1001 Forum Place, Suite 900 West Palm Beach, FL 33401	427,848	20.66%
Bruce Paul Hampton Road Purchase, NY 10577	231,500	11.18%

* Less than 2%

(1) For purposes of this table, beneficial ownership is computed pursuant to rule 13d-3 under the Securities Exchange Act of 1934, as amended; the inclusion of shares beneficially owned should not be construed as an admission that such shares are beneficially owned for purposes of Section 16 of such Act.

(2) Includes shares that may be acquired upon exercise of options that are exercisable within sixty (60) days in the following amounts: Mr. Saraf - 382,197 shares; Mr. Schlig - 13,000 shares; Mr. Davis - 13,000 shares.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

2.1 Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).

2.2 Debtors' First Modification of Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).

2.3 Order Confirming Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).

2.4 Consent Final Judgment of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).

3.1 Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).

3.2 Bylaws of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).

4.1 Rights Agreement dated as of May 31, 2001, between Solitron Devices, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to the Company's current report on Form 8-K filed on June 20, 2001).

10.1 1987 Incentive Stock Option Plan (incorporated by reference to the Company's Form 10-K for the years ended February 28, 1994 and February 28, 1995).

10.2 Purchase Agreement, dated October 5, 1992, by and among Solitron Devices, Inc. Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation, along with and as amended by: (i) Amendment Number One to Purchase Agreement, dated October 28, 1992, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation; (ii) Order, dated December 23, 1992, Authorizing the Sale of Certain of the Debtors' Assets to Vector Trading and Holding Corporation; (iii) Amendment Number Two to Purchase Agreement. dated February 28, 1993, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation; and (iv) Order, dated March 4, 1993, Granting Vector Trading and Holding Corporation's Motion for Entry of Amended Order Authorizing Sale of Certain of the Debtors' Assets (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).

10.3 Shared Services and Equipment Agreement, dated February 28, 1993, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and S/V Microwave (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).

10.4 Commercial Lease Agreement, dated January 1, 1992, between William C. Clark, as Trustee, and Solitron Devices, Inc. (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).

10.5* Reduction in Space and Rent Agreement dated November 1, 2001 between Solitron Devices, Inc. and Technology Place, Inc.

10.6 Employment Agreement, dated December 1, 2000, between Solitron Devices, Inc. and Shevach Saraf (incorporated by reference to the Company's Form 10-K for the year ended February 28, 2001)

21* List of Subsidiaries of the Company.

(B) REPORTS ON FORM 8-K

None

* Filed herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SOLITRON DEVICES, INC.

/s/ Shevach Saraf

By: Shevach Saraf
Title: Chairman of the Board,
President and Chief Executive Officer

Date: June 13, 2002

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE

/s/ Shevach Saraf ----------------------- Shevach Saraf	Chairman of the Board, President, Chief Executive Officer and Treasurer (Principal Executive Officer and Principal Financial and Accounting Officer)	June 13, 2002
/s/ Jacob Davis ----------------------- Jacob Davis	Director	June 13, 2002
/s/ Joseph Schlig ----------------------- Joseph Schlig	Director	June 13, 2002

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EXHIBIT INDEX

EXHIBIT	DESCRIPTION
2.1	Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
2.2	Debtors' First Modification of Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
2.3	Order Confirming Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
2.4	Consent Final Judgment of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
3.2	Bylaws of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
4.1	Rights Agreement dated as of May 31, 2001, between Solitron Devices, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to the Company's current report on Form 8-K filed on June 20, 2001).
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21* List of Subsidiaries of the Company

* Filed herewith