

SOLITRON DEVICES INC  
Form 10QSB  
October 01, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended August 31, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

Commission file number 001-04978

Solitron Devices, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

22-1684144

(IRS Employer Identification Number)

3301 Electronics Way, West Palm Beach, Florida 33407

(Address of principal executive offices)

(561) 848-4311

(Issuer's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of August 31, 2007:  
2,263,046 shares of common stock.

Transitional Small Business Disclosure Format (check one):

Yes  No

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SOLITRON DEVICES, INC.

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PART I - FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSSOLITRON DEVICES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited, in thousands)

August 31, 2007

**ASSETS****CURRENT ASSETS**

|                                                                   |    |              |
|-------------------------------------------------------------------|----|--------------|
| Cash and cash equivalents                                         | \$ | 3,880        |
| Accounts receivable, less allowance for doubtful accounts of \$22 |    | 688          |
| Inventories, net                                                  |    | 2,642        |
| Prepaid expenses and other current assets                         |    | 130          |
| <b>TOTAL CURRENT ASSETS</b>                                       |    | <b>7,340</b> |

|                                           |  |            |
|-------------------------------------------|--|------------|
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b> |  | <b>449</b> |
|-------------------------------------------|--|------------|

|                     |  |            |
|---------------------|--|------------|
| <b>OTHER ASSETS</b> |  | <b>260</b> |
|---------------------|--|------------|

|                     |    |              |
|---------------------|----|--------------|
| <b>TOTAL ASSETS</b> | \$ | <b>8,049</b> |
|---------------------|----|--------------|

**LIABILITIES AND STOCKHOLDERS' EQUITY****CURRENT LIABILITIES**

|                                                  |    |              |
|--------------------------------------------------|----|--------------|
| Accounts payable - Post-petition                 | \$ | 408          |
| Accounts payable - Pre-petition, current portion |    | 1,128        |
| Accrued expenses and other current liabilities   |    | 350          |
| <b>TOTAL CURRENT LIABILITIES</b>                 |    | <b>1,886</b> |

|                                                      |  |            |
|------------------------------------------------------|--|------------|
| <b>LONG TERM LIABILITIES, net of current portion</b> |  | <b>355</b> |
|------------------------------------------------------|--|------------|

|                          |  |              |
|--------------------------|--|--------------|
| <b>TOTAL LIABILITIES</b> |  | <b>2,241</b> |
|--------------------------|--|--------------|

**STOCKHOLDERS' EQUITY**

|                                                                                                                                               |  |       |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--|-------|
| Preferred stock, \$.01 par value, authorized 500,000 shares, none issued                                                                      |  | -0-   |
| Common stock, \$.01 par value, authorized 10,000,000 shares, 2,263,046 shares issued and outstanding, net of 173,287 shares of treasury stock |  | 23    |
| Additional paid-in capital                                                                                                                    |  | 2,733 |
| Retained earnings                                                                                                                             |  | 3,052 |

|                                   |  |              |
|-----------------------------------|--|--------------|
| <b>TOTAL STOCKHOLDERS' EQUITY</b> |  | <b>5,808</b> |
|-----------------------------------|--|--------------|

|                                                   |    |              |
|---------------------------------------------------|----|--------------|
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | \$ | <b>8,049</b> |
|---------------------------------------------------|----|--------------|

The accompanying notes are an integral part of the financial statements.

SOLITRON DEVICES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
THREE AND SIX MONTHS ENDED AUGUST 31,  
(Unaudited, in thousands except for share and per share amounts)

|                                              | Three Months |           | Six Months |           |
|----------------------------------------------|--------------|-----------|------------|-----------|
|                                              | 2007         | 2006      | 2007       | 2006      |
| NET SALES                                    | \$ 1,847     | \$ 1,779  | \$ 3,590   | \$ 3,680  |
| Cost of Sales                                | 1,551        | 1,512     | 2,921      | 3,209     |
| Gross Profit                                 | 296          | 267       | 669        | 471       |
| Selling, General and Administrative Expenses | 235          | 277       | 505        | 565       |
| Operating Income/(Loss)                      | 61           | (10)      | 164        | (94)      |
| <b>OTHER INCOME (EXPENSE)</b>                |              |           |            |           |
| Other Income/(Expense), Net                  | (3)          | -         | 1          | -         |
| Interest Income                              | 46           | 33        | 90         | 64        |
| Interest Expense                             | -            | -         | -          | -         |
| Other income (expense), net                  | 43           | 33        | 91         | 64        |
| Net (loss)/income                            | \$ 104       | \$ 23     | \$ 255     | \$ (30)   |
| <b>(LOSS)/INCOME PER SHARE:</b>              |              |           |            |           |
| Basic                                        | \$ .05       | \$ .01    | \$ .11     | \$ (0.01) |
| : Diluted                                    | \$ .04       | \$ .01    | \$ .10     | \$ (0.01) |
| <b>WEIGHTED AVERAGE</b>                      |              |           |            |           |
| SHARES OUTSTANDING: Basic                    | 2,263,046    | 2,261,649 | 2,263,046  | 2,227,888 |
| : Diluted                                    | 2,445,446    | 2,477,149 | 2,441,395  | 2,227,888 |

The accompanying notes are an integral part of the financial statements.

**SOLITRON DEVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED AUGUST 31,**  
(Unaudited, in thousands)

|                                                                                          | 2007            | 2006            |
|------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                              |                 |                 |
| Net income/(loss)                                                                        | \$ 255          | \$ (30)         |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: |                 |                 |
| Depreciation and amortization                                                            | 94              | 92              |
| Changes in operating assets and liabilities:                                             |                 |                 |
| (Increase) Decrease in:                                                                  |                 |                 |
| Accounts receivable                                                                      | (46)            | 66              |
| Inventories                                                                              | 40              | (126)           |
| Prepaid expenses and other current assets                                                | (2)             | (63)            |
| Other non-current assets                                                                 | (207)           | 21              |
| Increase (Decrease) in:                                                                  |                 |                 |
| Accounts payable - Post-petition                                                         | 168             | (28)            |
| Accounts payable - Pre-petition                                                          | (14)            | (14)            |
| Accrued expenses and other current liabilities                                           | (80)            | (212)           |
| Other non-current liabilities                                                            | 187             | -               |
| <b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>                               | <b>395</b>      | <b>(294)</b>    |
| <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>                                              |                 |                 |
| Purchases of property, plant and equipment                                               | (54)            | (80)            |
| <b>NET CASH (USED IN) INVESTING ACTIVITIES</b>                                           | <b>(54)</b>     | <b>(80)</b>     |
| <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>                                              |                 |                 |
| Exercise of stock options                                                                | -               | 21              |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                         | <b>-</b>        | <b>21</b>       |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <b>341</b>      | <b>(353)</b>    |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>                              | <b>3,539</b>    | <b>3,181</b>    |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>                                    | <b>\$ 3,880</b> | <b>\$ 2,828</b> |

The accompanying notes are an integral part of the financial statements.

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

1. GENERAL AND SIGNIFICANT ACCOUNTING POLICIES:

GENERAL:

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting primarily of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of the results for the interim period.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-QSB. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

The information contained in this Form 10-QSB should be read in conjunction with the Notes to Consolidated Financial Statements appearing in the Solitron Devices, Inc. and Subsidiaries' (collectively, the "Company") Annual Report on Form 10-KSB for the year ended February 28, 2007.

The results of operations for the three-month period ended August 31, 2007 are not necessarily indicative of the results to be expected for the entire year ending February 29, 2008.

SIGNIFICANT ACCOUNTING PRINCIPLES:

Basis for Consolidation

The condensed consolidated financial statements include the accounts of the Company. All significant inter-company balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts, and treasury bills with maturities of ninety days or less.

Earnings Per Common Share

Earnings per common share is presented in accordance with SFAS No. 128 "Earnings per Share." Basic earnings per common share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per common share incorporate the incremental shares issuable upon the assumed exercise of stock options to the extent they are not anti-dilutive using the treasury stock method.

Shipping and Handling

Shipping and handling costs billed to customers by the Company are recorded in net sales. Shipping costs incurred by the Company are recorded in cost of sales.

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

(Unaudited)

Stock Based Compensation

In December 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123”. This statement amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has prepared its interim financial statements for the fiscal quarters ended August 31, 2007 and August 31, 2006 in accordance with SFAS No. 148.

No employee stock options were granted during fiscal quarters ended August 31, 2007 and August 31, 2006.

2. 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. In addition, the Company, 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.

3. ENVIRONMENTAL LIABILITIES:

The Company entered into an Ability to Pay Multi-Site Settlement Agreement with the United States Environmental Protection Agency (“USEPA”), effective February 24, 2006 (“Settlement Agreement”), to resolve the Company’s alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida (“Port Salerno Site”); Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Resources Superfund Site, Santa Barbara, California (“Casmalia Site”); Solitron Devices Site, Riviera Beach, Florida (the “Riviera Beach Site”); and City Industries Superfund Site, Orlando, Florida (collectively, the “Sites”). The Settlement Agreement required the Company to pay to USEPA the sum of \$74,000 by February 24, 2008; the Company paid the entire sum of \$74,000 to USEPA on February 27, 2006. In addition, the Company is required to pay to USEPA the sum of \$10,000 or 5% of Solitron’s net after-tax income over the first \$500,000, if any, whichever is greater, for each year from 2008 to 2012. For payment to USEPA to be above \$10,000 for any of these five years, the Company’s net income must exceed \$700,000 for such year, which has only happened twice in the past ten years (in fiscal year 2001 and fiscal year 2006). The Company accrued \$50,000 for its remaining obligations under the Settlement Agreement.

In consideration of the payments made by the Company under the Settlement Agreement, USEPA agreed not to sue or take any administrative action against the Company with regard to any of the Sites. The Company has also been



notified by a group of alleged responsible parties formed at the Casmalia Site (“Casmalia PRP Group”) that, based on their review and lack of objection to the Settlement Agreement, the Casmalia PRP Group does not anticipate pursuing Solitron for cost recovery at the Casmalia Site.

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

(Unaudited)

On October 21, 1993, a Consent Final Judgment was entered into between the Company and the Florida Department of Environmental Protection (“FDEP”) in the Circuit Court of the Nineteenth Judicial Circuit of Florida in and for Martin County, Florida, in Case No. 91-1232 CA (the “Consent Final Judgment”). The Consent Final Judgment required the Company to remediate the Port Salerno Site and Riviera Beach Site, make monthly payments to escrow accounts for each Site until the sale of the Sites to fund the remediation work, take all reasonable steps to sell the two Sites and, upon the sale of the Sites, apply the net proceeds from the sales to fund the remediation work. Both Sites have been sold (Riviera Beach Site on October 12, 1999 and Port Salerno Site on March 17, 2003) pursuant to purchase agreements approved by FDEP.

Prior to the sale of the Port Salerno Site and Riviera Beach Site, USEPA took over from FDEP as the lead regulatory agency for the remediation of the Sites. At the closing of the sale of each Site, the net proceeds of sale were distributed to USEPA and/or FDEP or other parties, as directed by the agencies. In addition, upon the sale of the Riviera Beach Site, the Riviera Beach Escrow Account was transferred to USEPA, as directed by the agencies. The current balance in the Port Salerno Escrow Account is approximately \$58,000. At present, work at the Port Salerno Site is being performed by USEPA. Work at the Riviera Beach Site is being performed by Honeywell, Inc. (“Honeywell”), pursuant to an Administrative Order on Consent entered into between Honeywell and USEPA. The Company has been notified by FDEP that the performance of remediation work by USEPA at the Port Salerno Site and by Honeywell at the Riviera Beach Site will be construed by FDEP as discharging the Company’s remediation obligations under the Consent Final Judgment.

There remains a possibility that FDEP will determine at some time in the future that the final remedy approved by USEPA and implemented at either, or both of, the Port Salerno Site and Riviera Beach Site does not meet the State cleanup requirements imposed by the Consent Final Judgment. If such a final determination is made by FDEP, there is a possibility that FDEP will require the Company to implement additional remedial action at either, or both of, the Port Salerno Site and Riviera Beach Site.

By letter dated November 16, 2006, FDEP notified the Company that FDEP has unreimbursed expenses associated with the Port Salerno Site and Riviera Beach Site of \$214,800. FDEP further notified the Company that FDEP required the Company to resume payments under the Consent Final Judgment to ensure that there are adequate funds to cover FDEP’s unreimbursed expenses and the Company’s residual liability under the Consent Final Judgment. During a follow up telephone conversation with the Company’s attorney, FDEP advised the Company that FDEP will prepare a justification for the asserted unreimbursed expenses. Upon receipt of the cost reimbursement package, the Company is required to transfer \$55,000.00 from the Port Salerno Escrow Account to FDEP as partial payment for FDEP’s unreimbursed expenses that are otherwise recoverable under the Consent Final Judgment. FDEP further stated, during the telephone conversation, that FDEP will work with the Company to establish a reduced payment schedule for the Company to resume under the Consent Final Judgment based on an appropriate showing by the Company of financial hardship. The Company is currently awaiting receipt of FDEP’s cost reimbursement package. Upon receipt of that documentation, the Company will be required to provide a recommendation to FDEP for resumption of payments to FDEP under the Consent Final Judgment based on the Company’s present ability to pay.

On August 7, 2002, the Company received a Request for Information from the State of New York Department of Environmental Conservation (“NYDEC”), seeking information on whether the Company had disposed of certain wastes at the Clarkstown Landfill Site located in the Town of Clarkstown, Rockland County, New York (The Clarkstown Landfill Site”). By letter dated August 29, 2002, the Company responded to the Request for Information and advised NYDEC that the Company’s former Tappan, New York facility had closed in the mid-1980’s, prior to the initiation of the Company’s bankruptcy proceedings described below. The Company contends that, to the extent that NYDEC has a

claim against the Company as a result of the Company's alleged disposal of wastes at the Clarkstown Landfill Site prior to the closing of the Company's former Tappan facility in the mid-1980's, the claim was discharged in bankruptcy as a result of the Bankruptcy Court's August 1993 Order. At NYDEC's request, the Company entered into a revised Tolling Agreement with NYDEC on January 17, 2007, which provides for the tolling of applicable statutes of limitation through the earlier of October 28, 2007, or the date the State institutes a suit against the Company for any claims associated with the Clarkstown Landfill Site. It is not known at this time whether NYDEC will pursue a claim against the Company in connection with the Clarkstown Landfill Site. As of the date of this filing, no such claim has been made.

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

4. EARNINGS PER SHARE:

The shares used in the computation of the Company's basic and diluted earnings per common share were as follows:

|                                                               | For the three months ended<br>August 31, |           | For the six months ended<br>August 31, |           |
|---------------------------------------------------------------|------------------------------------------|-----------|----------------------------------------|-----------|
|                                                               | 2007                                     | 2006      | 2007                                   | 2006      |
| Weighted average common shares outstanding                    | 2,263,046                                | 2,261,649 | 2,263,046                              | 2,227,888 |
| Dilutive effect of employee stock options                     | 182,400                                  | 215,500   | 178,349                                | 0         |
| Weighted average common shares outstanding, assuming dilution | 2,445,446                                | 2,477,149 | 2,441,395                              | 2,227,888 |

Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. For the three month period ended August 31, 2007, 13,800 of the Company's stock options were excluded from the calculation of diluted earning per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive. For the three-month period ended August 31, 2006, none of the Company's stock options were excluded from the calculation of diluted earnings per share.

5. INVENTORIES:

As of August 31, 2007 net inventories consisted of the following:

|                   |              |
|-------------------|--------------|
| Raw Materials     | \$ 1,503,000 |
| Work-In-Process   | 1,720,000    |
| Finished Goods    | 482,000      |
| Gross Inventories | 3,705,000    |
| Reserve           | (1,063,000)  |
| Net Inventories   | \$ 2,642,000 |

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

6. INCOME TAXES:

At August 31, 2007, the Company had net operating loss carryforwards of approximately \$13,195,000 that expire through 2022. Such net operating losses are available to offset future taxable income, if any. As the utilization of such net operating losses for tax purposes is not assured, the deferred tax asset has been fully reserved through the recording of a 90% 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 carryforwards.

A reconciliation of the provision for income taxes to the amount calculated using the statutory federal rate (34%) for the periods ended August 31, 2007 and 2006 is provided below:

|                                                | August 31,<br>2007 | August 31,<br>2006 |
|------------------------------------------------|--------------------|--------------------|
| Income Tax Provision at                        |                    |                    |
| U.S. Statutory Rate                            | \$ 272,000         | \$ -               |
| State Taxes, Net of Federal Benefit            | 44,000             | -                  |
| Alternative Minimum Tax                        | 4,000              | -                  |
| Less: Prior Year Overaccrual                   | (4,000)            | -                  |
| Utilization of Net Operating Loss Carryforward | (316,000)          | -                  |
| Income Tax Provision                           | \$ -               | \$ -               |

A 10% change in the valuation allowance on deferred tax assets was recorded for the quarter ended August 31, 2007. A \$187,000 non-current deferred tax asset and associated \$187,000 non-current deferred tax liability were recorded. No change in the valuation allowance on deferred tax assets was recorded for the period ended August 31, 2006.

7. OTHER INCOME:

The \$43,000 of other income reflected in the condensed consolidated statements of income for the quarter ended August 31, 2007 consists of \$46,000 of interest income on cash and cash equivalents less \$3,000 of other income related to the loss of an equipment deposit. For the fiscal quarter ended August 31, 2006, the Company earned \$33,000 of other expense consisting entirely of interest income.

8. ACCRUED EXPENSES:

As of August 31, 2007 accrued expenses and other liabilities consisted of the following:

|                                       |            |
|---------------------------------------|------------|
| Payroll and related employee benefits | \$ 305,000 |
| Accrued property taxes                | 26,000     |
| Other liabilities                     | 19,000     |
|                                       | \$ 350,000 |

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

9. EXPORT SALES AND MAJOR CUSTOMERS:

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

|                          | Three months ended August 31, |              |
|--------------------------|-------------------------------|--------------|
|                          | 2007                          | 2006         |
| Export sales:            |                               |              |
| Europe and Australia     | \$ 163,000                    | \$ 192,000   |
| Canada and Latin America | 16,000                        | 57,000       |
| Far East and Middle East | 50,000                        | 0            |
| United States            | 1,618,000                     | 1,530,000    |
|                          | \$ 1,847,000                  | \$ 1,779,000 |

Sales to the Company's top two customers accounted for approximately 44% of net sales for the quarter ended August 31, 2007 as compared to 52% for the quarter ended August 31, 2006. Sales to Raytheon Company accounted for approximately 34% of net sales for the quarter ended August 31, 2007 as compared to 36% for the quarter ended August 31, 2006. During the quarter ended August 31, 2007, sales to the United States Government represented approximately 10% of net sales as compared to 16% for the quarter ended August 31, 2006.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview:

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 power 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 transistors, diodes and Standard Military Drawings voltage regulators, are sold as standard or catalog items.

The following discussion and analysis of factors which have affected the Company's financial position and operating results during the periods included in the accompanying condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-KSB for the year ended February 28, 2007 and the Condensed Consolidated Financial Statements and the related Notes to Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-QSB.

Critical Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the condensed consolidated financial statements included elsewhere in this Form 10-QSB which are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies include inventories, valuation of plant, equipment and intangible assets, revenue recognition and accounting for income taxes. A discussion of all of these critical accounting policies can be found in Note 1 of the "Notes to the consolidated financial statements" in Item 7 of our Annual Report on Form 10-KSB for the fiscal year ended February 28, 2007.

Trends and Uncertainties:

During the six months ended August 31, 2007, the Company's book-to-bill ratio was approximately 1.48 as compared to approximately .96 for the six months ended August 31, 2006, reflecting an increase in the volume of orders booked. The Company does not believe that the quarter-to-quarter change in the book-to-bill ratio indicates a specific trend in the demand for the Company's products. Generally, the intake of orders over the last twenty four months has varied greatly as a result of the fluctuations in the general economy, variations in defense spending on programs the Company supports, and the timing of contract awards by the Department of Defense and subsequently by its prime contractors, which is expected to continue over the next twelve to twenty four months. The Company continues to identify means intended to reduce its variable manufacturing costs to offset the potential impact of low volume of orders to be shipped. However, should order intake fall drastically below the level experienced in the last twenty four months, the Company might be required to implement further cost cutting or other downsizing measures to continue its business operations.

Results of Operations-Three Months Ended August 31, 2007 Compared to Three Months Ended August 31, 2006:

Net sales for the three months ended August 31, 2007 increased 4% to \$1,847,000 as compared to \$1,779,000 for the three months ended August 31, 2006. This increase was primarily attributable to a higher level of orders that were shipped in accordance with customer requirements.

Cost of sales for the three months ended August 31, 2007 increased to \$1,551,000 from \$1,512,000 for the comparable period in 2006. Expressed as a percentage of sales, cost of sales decreased to 84% from 85% for the same period in 2006. This change was due primarily to decreases in direct labor wages and manufacturing overhead expenses.



Gross profit for the three months ended August 31, 2007 increased to \$296,000 from \$267,000 for the three months ended August 31, 2006. Accordingly, gross margins on the Company's sales increased to 16% for the three months ended August 31, 2007 in comparison to 15% for the three months ended August 31, 2006. This change was due primarily to decreases in direct labor wages and manufacturing overhead expenses as discussed above.

For the three months ended August 31, 2007, the Company shipped 205,790 units as compared to 125,885 units shipped during the same period of the prior year. 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 should not be regarded as a reliable indicator of the Company's performance.

The Company's backlog of open orders increased 18%, from \$5,006,000 to \$5,898,000, for the three months ended August 31, 2007, as compared to a decrease of 5% for the three months ended August 31, 2006. Changes in backlog reflect changes in the intake of orders and in the delivery dates required by customers.

The Company has experienced an increase of 61% in the level of bookings during the quarter ended August 31, 2007 as compared to a 20% decrease in bookings for the same period in 2006 principally as a result of a shift in defense spending priorities, resulting in an increase in the monetary value of, and timing differences in the placement of contracts by the Department of Defense and its prime contractors.

Selling, general, and administrative expenses decreased to \$235,000 for the three months ended August 31, 2007 from \$277,000 for the comparable period in 2006. During the three months ended August 31, 2007, selling, general, and administrative expenses as a percentage of net sales decreased to 13% as compared with 16% for the three months ended August 31, 2006. The decrease was due primarily to decreases in sales commissions and selling wages.

Operating income/(loss) for the three months ended August 31, 2007 increased to an operating income of \$61,000 from an operating loss of \$10,000 for the three months ended August 31, 2006. This increase is due mainly to an increase in sales, a decrease in cost of sales percentage, and a decrease in selling, general and administrative expenses.

The Company recorded net other income of \$43,000 for the three months ended August 31, 2007 versus net other income of \$33,000 for the three months ended August 31, 2006. Included in net other income was interest income of \$46,000 offset by \$3,000 of other expense due to the loss of an equipment deposit, for the three months ended August 31, 2007 as compared to interest income of \$33,000 for the three months ended August 31, 2006. The increase in interest income is due primarily to higher cash and equivalents balances invested.

Net income for the three months ended August 31, 2007 increased to \$104,000 versus \$23,000 for the same period in 2006. This increase was due primarily to an increase in sales, a decrease in cost of sales percentage, and a decrease in selling, general and administrative expenses.

Results of Operations-Six Months Ended August 31, 2007 Compared to Six Months Ended August 31, 2006:

Net sales for the six months ended August 31, 2007 decreased 2% to \$3,590,000 as compared to \$3,680,000 for the six months ended August 31, 2006. This decrease was primarily attributable to a lower level of orders that were shipped in accordance with customer requirements.

Cost of sales for the six months ended August 31, 2007 decreased to \$2,921,000 from \$3,209,000 for the comparable period in 2006. Expressed as a percentage of sales, cost of sales decreased to 81% from 87% for the same period in 2006. The change was due primarily to lower raw material costs resulting from higher product yields and decreases in direct labor wages and manufacturing overhead expenses.

Gross profit for the six months ended August 31, 2007 increased to \$669,000 from \$471,000 for the six months ended August 31, 2006. Accordingly, gross margins on the Company's sales increased to approximately 19% for the six months ended August 31, 2007 in comparison to approximately 13% for the six months ended August 31, 2006. This change was primarily due to lower raw material costs resulting from higher product yields and decreases in direct labor wages and manufacturing overhead expenses as discussed above.

For the six months ended August 31, 2007, the Company shipped 405,136 units as compared to 184,373 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

The Company's backlog of open orders increased 32%, from \$4,472,000 to \$5,898,000 for the six months ended August 31, 2007, as compared to a decrease of approximately 6% for the six months ended August 31, 2006. Changes in backlog resulted from changes in the intake of orders and in the delivery dates required by customers.

The Company has experienced an increase in the level of bookings of approximately 41% for the quarter ended August 31, 2007 as compared to a decrease of 19% for the same period for the previous year principally as a result of a shift in defense spending priorities, resulting in an increase in the monetary value of, and timing differences in the placement of contracts by the Department of Defense and its prime contractors.

Selling, general, and administrative expenses decreased to \$505,000 for the six months ended August 31, 2007 from \$565,000 for the comparable period in 2006. During the six months ended August 31, 2007, selling, general, and administrative expenses as a percentage of net sales decreased to 14% as compared to 15% for the six months ended August 31, 2006. The decrease was due primarily to decreases in sales commissions and selling wages.

Operating income/(loss) for the six months ended August 31, 2007 increased to income of \$164,000 from a loss of \$94,000 for the six months ended August 31, 2006. This increase is due mainly to an increase in sales, a decrease in cost of sales percentage, and a decrease in selling, general and administrative expenses.

The Company recorded net other income of \$91,000 for the six months ended August 31, 2007 versus net other income of \$64,000 for the six months ended August 31, 2006. Included in net other income was interest income of \$90,000 for the six months ended August 31, 2007 as compared to \$64,000 for the six months ended August 31, 2006. The increase in interest income is due primarily to higher cash and equivalents balances invested.

Net income/(loss) for the six months ended August 31, 2007 increased to income of \$255,000 from a loss of \$30,000 for the same period in 2006. This increase was due primarily to a higher sales volume and lower cost of sales percentage as discussed above.

#### Liquidity and Capital Resources:

The Company's sole source of cash is revenue generated by ongoing operations. The Company's liquidity is expected to be adversely affected by decreased cash receipts due to anticipated lower level of sales volume over the next twelve to twenty-four months due to customers' delivery requirements. The Company's liquidity is not expected to improve until the Company's revenues increase to a level consistently above its breakeven point.

Furthermore, the Company's liquidity continues to be adversely affected by the Company's 1993 bankruptcy petition obligations and the Company's inability to obtain additional working capital through the sale of debt or equity securities. For a more complete discussion of the Company's bankruptcy obligations, see "Business - Bankruptcy Proceedings" in the Company's Annual Report on Form 10-KSB filed for the period ended February 28, 2007.

The Company is required to make quarterly payments to holders of unsecured claims until they receive 35 percent (35%) of their pre-petition claims. As of August 31, 2007, the Company has paid approximately \$720,000 to its unsecured creditors. The Company's remaining obligation is approximately \$1,128,000 to holders of allowed unsecured claims to be paid in quarterly installments.

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The Company reported net income of \$255,000 and operating income of \$164,000 for the six months ended August 31, 2007.

At August 31, 2007, February 28, 2007 and August 31, 2006, the Company had cash of approximately \$3,880,000, \$3,539,000 and \$2,828,000 respectively. Increases in accounts payable contributed \$168,000 to the last six months' positive cash flow generated by ongoing operations.

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At August 31, 2007, the Company had working capital of \$5,454,000 as compared with a working capital at August 31, 2006 of \$4,586,000. At February 28, 2007, the Company had a working capital of \$5,179,000. The \$275,000 increase for the six months ended August 31, 2007 was due mainly to cash generated by net income.

Off-Balance Sheet Arrangements:

The Company is not involved in any off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-QSB are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" in this Quarterly Report on Form 10-QSB, including those identified below. We do not undertake any obligation to update forward-looking statements.

Some of the factors that may impact our business, financial condition, results of operations, strategies or prospects include:

- 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;
- 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;
- inability to protect the Company's proprietary technologies;
- 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;
- inability to adequately respond to continued pricing pressure;
- 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 of Reorganization;
- inability to move into new markets or develop new products;
- unexpected impediments affecting the Company's ability to fill backlog;
- inability to be released from certain environmental liabilities;
- an increase in the expected cost of environmental compliance;
- changes in law or industry regulation;
- unexpected growth or stagnation of the business;
- any changes that render the Company's headquarters and manufacturing facilities unsuitable or inadequate to meet the Company's current needs;
- significant fluctuations in the price and volume of trading in the Company's common stock;
- unforeseen effects of inflation; and
- the impact of hurricanes, tornadoes and other weather conditions on our business.

ITEM 3.

CONTROLS AND PROCEDURES

Based on the evaluation of the Company's disclosure controls and procedures as of August 31, 2007, Shevach Saraf, Chairman, President, Chief Executive Officer, Treasurer and Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures were effective as of August 31, 2007.

There were no changes in the Company's internal control over financial reporting during the quarter ended August 31, 2007, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 6.

EXHIBITS:

Exhibits

10.1 Solitron Devices, Inc. 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K/A filed on June 12, 2007).

31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLITRON DEVICES, INC.

Date: October 1, 2007

/s/ Shevach Saraf

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Shevach Saraf  
Chairman, President,  
Chief Executive Officer,  
Treasurer and  
Chief Financial Officer



EXHIBIT INDEX

E X H I B I T

| <u>NUMBER</u> | <u>DESCRIPTION</u>                                                                                                                                |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
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\* Management contract or compensatory plan, contract or arrangement.