SOLITRON DEVICES INC
Form 10-Q/A
October 16, 2009

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

FORM 10-Q/A
Amendment No. 1

(Mark one)

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

For the quarterly period ended August 31, 2009

or

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

For the transition period from _______ to _______

Commission File No. 1-4978

SOLITRON DEVICES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-1684144 (I.R.S. Employer Identification No.)
3301 Electronics Way, West Palm Beach, Florida (Address of Principal Executive Offices)	33407 (Zip Code)

(561) 848-4311
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of September 30, 2009 was 2,263,775.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A is being filed solely to correct typographical errors regarding backlog of open orders contained within Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Solitron Devices, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2009 filed with the Securities and Exchange Commission on October 9, 2009. All other information in the Form 10-Q, including the financial statements, is unchanged from the original filing.

SOLITRON DEVICES, INC.

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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 U.S. 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 financial statements should be read in conjunction with the Financial Statements and the related Notes to 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-K for the year ended February 28, 2009 and the Condensed Financial Statements and the related Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Recent Developments:

On September 22, 2009, the Company received AS9100 Rev B certification as well as re-certification for the ISO 9001:2000 quality management standard certification. Companies in the aerospace industry are increasingly selecting suppliers on the basis of AS9100 certification. Achieving certified status means that the Company may now obtain new business that may have been out of reach in the past and expects to maintain ongoing relationships with its existing aerospace customers long into the future.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q 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, 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 Financial Statements" in Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

Trends and Uncertainties:

During the three months ended August 31, 2009, the Company's book-to-bill ratio was approximately 1.05 as compared to approximately 1.44 for the three months ended August 31, 2008, reflecting a decrease in the volume of orders booked. 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 continue to 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.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the "first-in, first-out" (FIFO) method. The Company buys raw material only to fill customer orders. Excess raw material is created only when a vendor imposes a minimum buy in excess of actual requirements. Such excess material will usually be utilized to meet the requirements of the customer's subsequent orders. If excess material is not utilized after two fiscal years it is fully reserved. Any inventory item once designated as reserved is carried at zero value in all subsequent valuation activities.

The Company's inventory valuation policy is as follows:

Raw material /Work in process:	All material purchased, processed and/or used in the last two fiscal years is valued at the lower of its acquisition cost or market. All material not purchased/used in the last two fiscal years is fully reserved for.
Finished goods:	All finished goods with firm orders for later delivery are valued (material and overhead) at the lower of cost or market. All finished goods with no orders are fully reserved.
Direct labor costs:	Direct labor costs are allocated to finished goods and work in process inventory based on engineering estimates of the amount of man hours required from the different direct labor departments to bring each device to its particular level of completion.

Results of Operations-Three months Ended August 31, 2009 Compared to Three months Ended August 31, 2008:

Net sales for the three months ended August 31, 2009 decreased 6% to $1,938,000 as compared to $2,071,000 for the three months ended August 31, 2008. This decrease was primarily attributable to a lower level of orders that were shipped in accordance with customer requirements.

Cost of sales for the three months ended August 31, 2009 decreased to $1,316,000 from $1,649,000 for the comparable period in 2008. Expressed as a percentage of sales, cost of sale decreased to 68% from 80% for the same period in 2008. This change was due primarily to a decrease in net sales combined with a decrease in raw material costs.

Gross profit for the three months ended August 31, 2009 increased to $622,000 from $422,000 for the three months ended August 31, 2008. Gross margins on the Company's sales increased to 32% for the three months ended August 31, 2009 in comparison to 20% for the three months ended August 31, 2008. This change was due mainly to a decrease in net sales combined with a decrease in raw material costs.

For the three months ended August 31, 2009, the Company shipped 32,221 units as compared to 58,532 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 2% to $5,327,000 for the three months ended August 31, 2009 as compared to an increase of 19% for the same period in the prior fiscal year. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company has experienced a decrease of 31% to $2,040,000 in the level of bookings during the three months ended August 31, 2009 when compared with the three months ended August 31, 2008. The decline in bookings for the current quarter is principally a result of a decline in defense spending, resulting in a decrease 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 $241,000 for the three months ended August 31, 2009 from $233,000 for the comparable period in 2008. During the three months ended August 31, 2009, selling, general, and administrative expenses as a percentage of net sales rose to 12% as compared with 11% for the three months ended

August 31, 2008. The percentage increase was due primarily to increases in professional and legal fees.

Operating income for the three months ended August 31, 2009 increased to $381,000 as compared to $189,000 for the three months ended August 31, 2008. This increase is due primarily to lower raw material costs.

The Company recorded net other income of $19,000 for the three months ended August 31, 2009 as compared to $25,000 for the three months ended August 31, 2008. Included in net other income was interest income on investment in treasury bills net of changes in market value of $3,000 for the three months ended August 31, 2009 plus $16,000 of income tax benefit. For the three months ended August 31, 2008, the Company recorded $25,000 of interest income on investment in treasury bills net of changes in market value. The decrease in interest income is due primarily to lower rates of return on invested funds.

Net income for the three months August 31, 2009 increased to $400,000 as compared to $214,000 for the same period in 2008. This increase is due lower raw material costs.

Results of Operations-Six Months Ended August 31, 2009 Compared to Six Months Ended August 31, 2008:

Net sales for the six months ended August 31, 2009 decreased 11% to $3,758,000 as compared to $4,240,000 for the six months ended August 31, 2008. 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, 2009 decreased to $2,865,000 from $3,272,000 for the comparable period in 2008. Expressed as a percentage of sales, cost of sales decreased to 76% from 77% for the same period in 2008. This change was due primarily to a decrease in net sales combined with a decrease in raw material costs.

Gross profit for the six months ended August 31, 2009 decreased to $893,000 from $968,000 for the six months ended August 31, 2008. Gross margins on the Company’s sales increased to 24% from 23% for the same period in 2008. The change in dollar amount was primarily due to a decrease in net sales combined with a decrease in raw material costs.

For the six months ended August 31, 2009, the Company shipped 80,680 units as compared to 188,109 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 decreased 15% to $5,327,000 for the six months ended August 31, 2009 as compared to a decrease of 1% for the same period in the prior fiscal year. Changes in backlog resulted from changes in the intake of orders and in the delivery dates required by customers.

The Company has experienced a decrease of 34% in the level of bookings during the six months ended August 31, 2009 when compared with the six months ended August 31, 2008. The decrease over the current six month period occurred principally as a result of a shift in defense spending priorities, resulting in a decrease 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 $512,000 for the six months ended August 31, 2009 from $517,000 for the comparable period in 2008. During the six months ended August 31, 2009, selling, general, and administrative expenses as a percentage of net sales increased to 14% as compared to 12% for the six months ended August 31, 2008. For the six months ended August 31, 2009, the Company has experienced higher professional and legal fees offset by lower selling, general and administrative labor costs.

Operating income for the six months ended August 31, 2009 decreased to $381,000 from $451,000 for the six months ended August 31, 2008. This decrease is due primarily to a decrease in net sales.

The Company recorded net other income of $20,000 for the six months ended August 31, 2009 as compared to net other income of $35,000 for the six months ended August 31, 2008. Included in net other income was interest income of $11,000 for the six months ended August 31, 2009 as compared to $35,000 for the six months ended August 31, 2008. The decrease in interest income is due primarily to lower interest rates on treasury bills. Also included in net other income for the six months ended August 31, 2009 was $16,000 of income tax benefit offset by $7,000 of expense from receivables adjustments.

Net income for the six months ended August 31, 2009 decreased to $401,000 from $486,000 for the same period in 2008. This decrease was due primarily to a lower net sales volume.

Liquidity and Capital Resources:

Subject to the following discussion, the Company expects its sole source of liquidity over the next twelve months to be cash from operations. However, due to the level of current backlog and level of new order intake, the Company might operate at a loss during the balance of the current fiscal year. The Company anticipates that its capital expenditures required to sustain operations will be approximately $200,000 during the balance of the current fiscal year and will be funded from 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 decline in the level of bookings, and an increase in the cost of raw materials and operations that will result in the potential erosion of profit levels and continued price pressures due to more intense competition, and (iii) the continued competition in the defense and aerospace market, the Company believes that it will have sufficient cash on hand to satisfy its operating needs during the current fiscal year. However, due to the level of current backlog and new order intake (due to the status of the general economy and the shift to Commercial Off–The-Shelf (COTS) by the defense industry), the Company might operate at a loss during the balance of the current fiscal year. Thus, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company may not generate sufficient cash to satisfy its operating needs and its obligations to pre-bankruptcy creditors in accordance with the Company's plan of reorganization. Thus, the Company 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 creditors 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 remain as presently anticipated, the Company will generate sufficient cash from operations to sustain operations and pay pre-bankruptcy creditor obligations at the current reduced level of payments. In the event that bookings in the long-term continue to decline significantly below the level experienced during the previous fiscal year, the Company may be required to implement 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 reported net income of $401,000 and operating income of $381,000 for the six months ended August 31, 2009.

At August 31, 2009, February 28, 2009 and August 31, 2008, the Company had cash of approximately $129,000, $440,000 and $76,000, respectively. Decreases in accounts payable and in accrued expenses accounted for $272,000 of the reduction in cash over the six month period ended August 31, 2009.

At August 31, 2009, February 28, 2009 and August 31, 2008, the Company had investments in treasury bills of approximately $5,325,000, $5,113,000 and $4,979,000, respectively.

At August 31, 2009, the Company had working capital of $7,381,000 as compared with a working capital at August 31, 2008 of $6,511,000. At February 28, 2009, the Company had a working capital of $6,972,000. The $393,000 increase for the six months ended August 31, 2009 was due mainly to a $294,000 decrease in current liabilities.

Off-Balance Sheet Arrangements:

The Company has not engaged in any off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q 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 our Annual Report on Form 10-K for the year ended February 28, 2009, 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:

- Our complex manufacturing processes may lower yields and reduce our revenues.
- Our business could be materially and adversely affected if we are unable to obtain qualified supplies of raw materials, parts and finished components on a timely basis and at a cost-effective price.
- 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.
- Changes in government policy or economic conditions could negatively impact our results.
- Our inventories may become obsolete and other assets may be subject to risks.
- Environmental regulations could require us to incur significant costs.
- Our business is highly competitive, and increased competition could reduce gross profit margins and the value of an investment in our Company.
- Downturns in the business cycle could reduce the revenues and profitability of our business.
- Our operating results may decrease due to the decline of profitability in the semiconductor industry.
- Uncertainty of current economic conditions, domestically and globally, could continue to affect demand for our products and negatively impact our business.
- Cost reduction efforts may be unsuccessful or insufficient to improve our profitability and may adversely impact productivity.
- We may not achieve the intended effects of our new business strategy, which could adversely impact our business, financial condition and results of operations.
- Our inability 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.
- Loss of, or reduction of business from, substantial clients could hurt our business by reducing our revenues, profitability and cash flow.
- A shortage of three-inch silicon wafers could result in lost revenues due to an inability to build our products.
- The nature of our products exposes us to potentially significant product liability risk.
- We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.
- 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.
- Natural disasters, like hurricanes, or occurrences of other natural disasters whether in the United States or internationally may affect the markets in which our common stock trades, the markets in which we operate and our profitability.
- Natural disasters, like hurricanes, or occurrences of other natural disasters whether in the United States or internationally may affect the availability of raw materials which may adversely affect our profitability.

- Failure to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.
- The price of our common stock has fluctuated widely in the past and may fluctuate widely in the future.

PART II– OTHER INFORMATION

ITEM 6. EXHIBITS:

Exhibits

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

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLITRON DEVICES, INC.

Date: October 16, 2009

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

EXHIBIT INDEX

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