

SOLITRON DEVICES INC  
Form 10-Q  
November 18, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended August 31, 2016

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. 00104978

SOLITRON DEVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware 22-1684144  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

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

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of November 11, 2016 was 1,901,950.



SOLITRON DEVICES, INC.

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PART I – FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

SOLITRON DEVICES, INC.

CONDENSED BALANCE SHEETS

AS OF AUGUST 31, 2016 AND FEBRUARY 29, 2016 (unaudited)

|  | August 31,<br>2016                   | Feb 29,<br>2016 |
|--|--------------------------------------|-----------------|
|  | (in thousands,<br>except for shares) |                 |
| <b>ASSETS</b>  |                                      |                 |
| <b>CURRENT ASSETS</b>  |                                      |                 |
| Cash and cash equivalents  | \$888                                | \$634           |
| Treasury bills and certificates of deposit                               | 2,739                                | 6,740           |
| Accounts receivable, less allowance for doubtful accounts of \$2         | 851                                  | 528             |
| Inventories, net (Note 4)  | 3,776                                | 3,671           |
| Prepaid expenses and other current assets                                | 187                                  | 184             |
| <b>TOTAL CURRENT ASSETS</b>  | <b>8,441</b>                         | <b>11,757</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>                                | <b>510</b>                           | <b>436</b>      |
| <b>OTHER ASSETS</b>  | <b>8</b>                             | <b>8</b>        |
| <b>TOTAL ASSETS</b>  | <b>\$8,959</b>                       | <b>\$12,201</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                              |                                      |                 |
| <b>CURRENT LIABILITIES</b>   |                                      |                 |
| Accounts payable   | \$751                                | \$164           |
| Customer deposits  | 43                                   | 28              |
| Accrued expenses and other current liabilities (Note 6)                  | 443                                  | 497             |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>1,237</b>                         | <b>689</b>      |
| <b>TOTAL LIABILITIES</b>   | <b>1,237</b>                         | <b>689</b>      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                     |                                      |                 |
| <b>STOCKHOLDERS' EQUITY</b>  |                                      |                 |
| Preferred stock, \$.01 par value, authorized 500,000 shares, none issued | -                                    | -               |
|  | 24                                   | 24              |

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Common stock, \$.01 par value, authorized 10,000,000 shares, 1,901,950 and 2,232,977 shares issued and outstanding, net of 669,284 and 338,257 shares of treasury stock as of August 31, 2016 and February 29, 2016 respectively

|   |                |                 |
|---|----------------|-----------------|
| Additional paid-in capital                        | 1,834          | 2,759           |
| Accumulated other comprehensive income            | 17             | 17              |
| Retained earnings                                 | 7,613          | 9,266           |
| Less treasury stock, at cost                      | (1,766)        | (554 )          |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                 | <b>7,722</b>   | <b>11,512</b>   |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$8,959</b> | <b>\$12,201</b> |

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

SOLITRON DEVICES, INC.

## CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2016 AND AUGUST 31, 2015

(Unaudited, in thousands except for share and per share amounts)

|  | Three months |           | Six Months  |           |
|--|--------------|-----------|-------------|-----------|
|  | 2016         | 2015      | 2016        | 2015      |
| Net Sales  | \$ 1,875     | \$2,212   | \$ 3,688    | \$4,595   |
| Cost of Sales  | 1,721        | 1,646     | 3,176       | 3,527     |
| Gross Profit   | 154          | 566       | 512         | 1,068     |
| Selling, General and Administrative Expenses             | 1,674        | 755       | 2,185       | 1,222     |
| Operating (Loss)   | (1,520 )     | (189 )    | (1,673 )    | (154 )    |
| Other income   |              |           |             |           |
| Interest Income  | 10           | 4         | 20          | 12        |
| Total other income                                       | 10           | 4         | 20          | 12        |
| (Loss) before provision for income taxes                 | (1,510 )     | (185 )    | (1,653 )    | (142 )    |
| Provision for income taxes                               | -            | 7         | -           | -         |
| Net (Loss)   | (1,510 )     | \$(178 )  | (1,653 )    | \$(142 )  |
| Other comprehensive income :                             |              |           |             |           |
| Unrealized gain on investments                           | 9            | -         | -           | -         |
| Total comprehensive (loss)                               | \$ (1,501)   | \$(178 )  | \$ (1,653 ) | \$(142 )  |
| (Loss) Per Share from operating income-Basic and diluted | \$(0.72 )    | \$(0.08 ) | \$(0.77 )   | \$(0.07 ) |
| Net (Loss) Per Share-Basic and diluted                   | \$(0.72 )    | \$(0.08 ) | \$(0.77 )   | \$(0.06 ) |
| Weighted average shares outstanding-Basic                | 2,089,052    | 2,271,491 | 2,161,015   | 2,229,312 |
| Weighted average shares outstanding-Diluted              | 2,089,052    | 2,271,491 | 2,161,015   | 2,229,312 |

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





SOLITRON DEVICES, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED AUGUST 31, 2016 AND AUGUST 31, 2015

(Unaudited)

|   | 2016           | 2015          |
|---|----------------|---------------|
|   | (in thousands) |               |
| Net (loss)  | \$(1,653)      | \$(142 )      |
| Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities: |                |               |
| Depreciation and amortization   | 97             | 105           |
| Decrease (increase) in operating assets:  |                |               |
| Accounts receivable   | (323 )         | 88            |
| Inventories, net  | (105 )         | 297           |
| Prepaid expenses and other current assets   | (3 )           | (49 )         |
| Increase (decrease) in operating liabilities:   |                |               |
| Accounts payable  | 587            | (166 )        |
| Customer deposits   | 15             | 4             |
| Accrued expenses and other liabilities  | (54 )          | (96 )         |
| Total adjustments   | 214            | 183           |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                  | <b>(1,439)</b> | <b>41</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                |               |
| Sales of treasury bills and certificates of deposit   | 4,000          | 3,154         |
| Purchases of treasury bills and certificates of deposit                                     | -              | (2,893)       |
| Purchases of property, plant and equipment  | (171 )         | (119 )        |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>  | <b>3,829</b>   | <b>142</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                |               |
| Repurchase of Common Stock and Options  | (2,137)        | -             |
| Payment of Dividends  | -              | (575 )        |
| Cash from exercise of employee stock options  | -              | 18            |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>  | <b>(2,137)</b> | <b>(557 )</b> |
| Net increase (decrease) in cash and cash equivalents  | 253            | (374 )        |
| Cash and cash equivalents – beginning of the period   | 634            | 820           |
| Cash and cash equivalents - end of the period   | \$888          | \$446         |

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



SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities

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 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.

Basis of Presentation

The unaudited condensed financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

The unaudited condensed financial information furnished herein reflects all adjustments, consisting of normal recurring items that, in the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. The results of operations for the six months ended August 31, 2016 are not necessarily indicative of the results to be expected for the year ending February 28, 2017.

The information included in this Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended February 29, 2016.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts.

Investment in Treasury Bills and Certificates of Deposit

Investment in treasury bills and certificates of deposit include treasury bills with maturities of one year or less, and is stated at market value.

All of the Company's investments are classified as available-for-sale. As they are available for current operations, they are classified as current on the balance sheets. Investments in available-for-sale securities are reported at fair value with unrecognized gains or losses, net of tax, as a component of accumulated other comprehensive income and is included as a separate component of stockholders' equity. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

As of August 31, 2016, the Company's available for sale non-equity investments were comprised of certificates of deposits.

As of August 31, 2016, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

|                          | Face value<br>(In thousands) | Fair Value<br>(In thousands) |
|--------------------------|------------------------------|------------------------------|
| Maturing within one year | \$ 2,739                     | \$ 2,739                     |

### Fair Value of Financial Instruments

Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures”, defines “fair value” as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also sets forth a valuation hierarchy of the inputs (assumptions that market participants would use in pricing an asset or liability) used to measure fair value. This hierarchy prioritizes the inputs into the following three levels:

- Level 1: Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that results in management’s best estimate of fair value.

The Company’s brokered Treasury bills and certificates of deposits are subject to Level 1 fair value measurement.

The carrying amounts of the Company’s short-term financial instruments, including accounts receivable, accounts payable, accrued expenses and other liabilities approximate their fair value due to the relatively short period to maturity for these instruments.

### Accounts Receivable

Accounts receivable consists of unsecured credit extended to the Company’s customers in the ordinary course of business. The Company reserves for any amounts deemed to be uncollectible based on past collection experiences and an analysis of outstanding balances, using an allowance account. The allowance amount was \$2,000 as of August 31, 2016 and February 29, 2016.

### Shipping and Handling

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

### 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 to fill customer orders. Excess raw material typically results from a vendor imposed minimum buy in excess of actual requirements. Such excess material can be used to meet the requirements of the customer’s subsequent orders. If excess material is not utilized after two fiscal years, it is fully reserved, excluding wafer related inventories in raw, work in process, and diced form which are fully reserved after three fiscal years. 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, except for wafers which function under a three year policy. All material not used in the last two fiscal years is fully reserved.
- 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. Manufacturing overhead costs are allocated to finished goods and work in process inventory as a ratio to direct labor costs.

### Revenue Recognition

Revenue is recognized in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*. This pronouncement requires that four basic criteria be met before revenue can be recognized: 1) there is evidence that an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. We recognize revenue upon determination that all criteria for revenue recognition have been met. The criteria are usually met at the time of product shipment. Shipping terms are generally FCA (Free Carrier) shipping point.

### Financial Statement Estimates

The preparation of condensed financial statements in conformity with accounting principles generally accepted in the United States 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 these estimates, and the differences could be material. Such estimates include depreciable life, valuation allowance, and allowance for inventory obsolescence.

### Recent Accounting Pronouncements

No recent accounting pronouncements affecting the Company were issued by the Financial Accounting Standards Board or other standards-setting bodies.

## 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. 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 |           | For the six months ended |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | August 31,                 |           | August 31,               |           |
|   | 2016                       | 2015      | 2016                     | 2015      |
| Weighted average common shares outstanding                    | 2,089,052                  | 2,271,491 | 2,161,015                | 2,229,312 |
| Dilutive effect of employee stock options                     | 0                          | 0         | 0                        | 0         |
| Weighted average common shares outstanding, assuming dilution | 2,089,052                  | 2,271,491 | 2,161,015                | 2,229,312 |

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 months and six months ended August 31, 2015, 290,073 shares underlying outstanding stock awards were not included in the computation of loss per common share – diluted because their effect would have been antidilutive. For the three months and six months ended August 31, 2016, there were no outstanding stock options.



4. INVENTORIES

As of August 31, 2016, inventories consist of the following:

|                 | Gross       | Reserve       | Net         |
|-----------------|-------------|---------------|-------------|
| Raw Materials   | \$2,009,000 | \$(626,000 )  | \$1,383,000 |
| Work-In-Process | 3,960,000   | (1,740,000)   | 2,220,000   |
| Finished Goods  | 996,000     | (824,000 )    | 173,000     |
| Totals          | \$6,965,000 | \$(3,190,000) | \$3,776,000 |

As of February 29, 2016, inventories consist of the following:

|                 | Gross       | Reserve       | Net         |
|-----------------|-------------|---------------|-------------|
| Raw Materials   | \$1,854,000 | \$(489,000 )  | \$1,365,000 |
| Work-In-Process | 3,915,000   | (1,775,000)   | 2,140,000   |
| Finished Goods  | 980,000     | (814,500 )    | 165,500     |
| Totals          | \$6,749,000 | \$(3,078,500) | \$3,670,500 |

5. INCOME TAXES

At August 31, 2016, the Company has net operating loss carryforwards of approximately \$10,016,000 that expire through February 2028. 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 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 carryforwards.

Net operating losses are subject to a twenty-year loss carryforward. Of the Company's \$10,016,000 of net operating loss carryforwards as of August 31, 2016, approximately \$1,254,000 expire in 2021, \$1,248,000 expire in 2022, and \$7,514,000 expire in 2028.

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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As of August 31, 2016 and February 29, 2016, accrued expenses and other liabilities consisted of the following:

|                                       | August 31,<br>2016 | February 29,<br>2016 |
|---------------------------------------|--------------------|----------------------|
| Payroll and related employee benefits | \$ 344,000         | \$ 447,000           |
| Property taxes                        | 32,000             | 10,000               |
| Other liabilities                     | 67,000             | 40,000               |
|                                       | \$ 443,000         | \$ 497,000           |

7. EXPORT SALES AND MAJOR CUSTOMERS

Revenues from domestic and export sales to unaffiliated customers for the three months ended August 31, 2016 are as follows:

| Geographic Region        | <u>Power Transistors</u> | Hybrids   | <u>Field Effect Transistors</u> | <u>Power MOSFETS</u> | Totals      |
|--------------------------|--------------------------|-----------|---------------------------------|----------------------|-------------|
| Europe and Australia     | \$ 11,000                | \$0       | 5,000                           | \$ 0                 | \$16,000    |
| Canada and Latin America | 9,000                    | 0         | 0                               | 0                    | 9,000       |
| Far East and Middle East | 83,000                   | 0         | 0                               | 0                    | 83,000      |
| United States            | 221,000                  | 1,303,000 | 44,000                          | 199,000              | 1,767,000   |
| Totals                   | \$ 324,000               | 1,303,000 | \$ 49,000                       | \$ 199,000           | \$1,875,000 |

Revenues from domestic and export sales to unaffiliated customers for the three months ended August 31, 2015 are as follows:

| Geographic Region        | <u>Power Transistors</u> | Hybrids     | <u>Field Effect Transistors</u> | <u>Power MOSFETS</u> | Totals      |
|--------------------------|--------------------------|-------------|---------------------------------|----------------------|-------------|
| Europe and Australia     | \$ 0                     | \$0         | \$ 3,000                        | \$ 0                 | \$3,000     |
| Canada and Latin America | 0                        | 0           | 24,000                          | 0                    | 24,000      |
| Far East and Middle East | 4,000                    | 0           | 15,000                          | 60,000               | 79,000      |
| United States            | 242,000                  | 1,176,000   | 205,000                         | 483,000              | 2,106,000   |
| Totals                   | \$ 246,000               | \$1,176,000 | \$ 247,000                      | \$ 543,000           | \$2,212,000 |

Revenues from domestic and export sales to unaffiliated customers for the six months ended August 31, 2016 are as follows:

| Geographic Region        | <u>Power Transistors</u> | Hybrids   | <u>Field Effect Transistors</u> | <u>Power MOSFETS</u> | Totals      |
|--------------------------|--------------------------|-----------|---------------------------------|----------------------|-------------|
| Europe and Australia     | \$ 11,000                | \$0       | 5,000                           | \$ 0                 | \$16,000    |
| Canada and Latin America | 9,000                    | 0         | 0                               | 0                    | 9,000       |
| Far East and Middle East | 83,000                   | 0         | 5,000                           | 83,000               | 171,000     |
| United States            | 449,000                  | 2,583,000 | 169,000                         | 291,000              | 3,492,000   |
| Totals                   | \$ 552,000               | 2,583,000 | \$ 179,000                      | \$ 374,000           | \$3,688,000 |

Revenues from domestic and export sales to unaffiliated customers for the six months ended August 31, 2015 are as follows:

| Geographic Region        | Power Transistors | Hybrids     | Field Effect Transistors | Power MOSFETS | Totals      |
|--------------------------|-------------------|-------------|--------------------------|---------------|-------------|
| Europe and Australia     | \$ 0              | \$0         | \$ 9,000                 | \$0           | \$9,000     |
| Canada and Latin America | 9,000             | 0           | 24,000                   | 0             | 33,000      |
| Far East and Middle East | 4,000             | 0           | 29,000                   | 146,000       | 179,000     |
| United States            | 706,000           | 2,325,000   | 284,000                  | 1,059,000     | 4,374,000   |
| Totals                   | \$ 719,000        | \$2,325,000 | \$ 346,000               | \$ 1,205,000  | \$4,595,000 |

Revenues from domestic and export sales are attributed to global geographic region according to the location of the customer's primary manufacturing or operating facilities.

For the quarter ended August 31, 2016, sales to the Company's top two customers consisted of the following:

| Customer                 | % of<br>Sales |
|--------------------------|---------------|
| Raytheon Company         | 63 %          |
| United States Government | 17 %          |
|                          | 79 %          |

For the quarter ended August 31, 2015, sales to the Company's top two customers consisted of the following:

| Customer                    | % of<br>Sales |
|-----------------------------|---------------|
| Raytheon Company            | 40 %          |
| Lockheed Martin Corporation | 27 %          |
|                             | 67 %          |

For the six months ended August 31, 2016, sales to the Company's top two customers consisted of the following:

| Customer                 | % of<br>Sales |
|--------------------------|---------------|
| Raytheon Company         | 65 %          |
| United States Government | 11 %          |
|                          | 76 %          |

For the six months ended August 31, 2015, sales to the Company's top two customers consisted of the following:

| Customer                    | % of<br>Sales |
|-----------------------------|---------------|
| Raytheon Company            | 50 %          |
| Lockheed Martin Corporation | 14 %          |
|                             | 64 %          |

8. MAJOR SUPPLIERS

For the quarter ended August 31, 2016, purchases from the Company's top four vendors consisted of the following:

| Vendor                   | % of Purchases |   |
|--------------------------|----------------|---|
| Egide USA Inc.           | 29             | % |
| Crystalonics             | 8              | % |
| Air Products & Chemicals | 7              | % |
| CPS Technologies Corp.   | 7              | % |
|                          | 51             | % |

For the quarter ended August 31, 2015, purchases from the Company's top two vendors consisted of the following:

| Vendor           | % of Purchases |   |
|------------------|----------------|---|
| Sintermetalglass | 23             | % |
| Egide USA        | 22             | % |
|                  | 45             | % |

For the six months ended August 31, 2016, purchases from the Company's top four vendors consisted of the following:

| Vendor                     | % of Purchases |   |
|----------------------------|----------------|---|
| Egide USA Inc.             | 19             | % |
| Air Products and Chemicals | 8              | % |
| Stellar Industries Corp.   | 7              | % |
| Crystalonics               | 6              | % |
|                            | 40             | % |

For the six months ended August 31, 2015, purchases from the Company's top six vendors consisted of the following:

| Vendor              | % of Purchases |   |
|---------------------|----------------|---|
| Egide USA           | 23             | % |
| Wuxi Streamtek Ltd. | 17             | % |
| Sintermetalglass    | 13             | % |
| Stellar Industries  | 11             | % |
| Specialized Plating | 9              | % |
| Semi Dice           | 6              | % |
|                     | 79             | % |

## 9. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments for the Company's manufacturing facility are as follows:

| Fiscal Year Ending February 28/29 | Amount      |
|-----------------------------------|-------------|
| 2017                              | 214,000     |
| 2018                              | 440,000     |
| 2019                              | 454,000     |
| 2020                              | 467,000     |
| 2021                              | 481,000     |
| Thereafter                        | 411,000     |
|                                   | \$2,467,000 |

#### 10. DIVIDEND

The Board of Directors of the Company did not declare a cash dividend during the three and six months ended August 31, 2016. In July 2015, the Company paid a dividend of \$0.25 per share to all stockholders of record at the close of business on June 29, 2015. The aggregate dividend payment was approximately \$575,000.

#### 11. STOCK REPURCHASE PROGRAM

On May 29, 2015, the Board of Directors of the Company authorized a stock repurchase program under which the Company may repurchase up to \$500,000 of the Company's common stock through February 29, 2016. On July 28, 2015, the Company announced that the Board of Directors had expanded the stock repurchase program to cover repurchases of up to \$1,000,000 of its outstanding common stock from time to time through February 29, 2016. On November 20, 2015, the Company purchased for \$279,616 a total of 65,027 shares of the Company's common stock pursuant to the repurchase program. On January 15, 2016, the Board of Directors of the Company amended the repurchase program under which the Company may repurchase up to \$1,000,000 of its outstanding common stock without an expiration date to the repurchase program. Under the repurchase program, repurchases may be made by the Company from time to time on the open market or in privately negotiated transactions depending on market conditions, stock price, corporate and regulatory requirements, and other factors. The Company did not repurchase any outstanding common stock under the stock repurchase program in the three and six months ended August 31, 2016. See Note 12 for the common stock and options repurchased from the former Chief Executive Officer.



12. RETIREMENT OF FORMER CHIEF EXECUTIVE OFFICER

On July 22, 2016, Shevach Saraf retired as Chairman, Chief Executive Officer, President, Chief Financial Officer, Treasurer and a member of the Board of Directors of the Company. In connection with his retirement, Mr. Saraf entered into a Separation and General Release Agreement (the "Separation Agreement"), dated July 22, 2016, with the Company. Mr. Saraf also resigned from all positions with the Company including his position as Trustee of the Company's 401(k) plan.

Pursuant to the Separation Agreement, the Company and Mr. Saraf agreed that his last day of active full-time employment with the Company would be July 22, 2016 (the "Separation Date"). Pursuant to the Separation Agreement, Mr. Saraf has agreed to comply with certain confidentiality and cooperation provisions. The Separation Agreement also provides for a customary general release of claims by Mr. Saraf and a limited release of claims by the Company and the members of the Board of Directors (the "Board"), as well as certain other standard terms and a mutual non-disparagement covenant for a period of one year. The Separation Payment and Additional Consideration (as defined below) pursuant to the Separation Agreement entitled Mr. Saraf to the following payments and benefits:

a payment of one million two hundred ninety-four thousand three hundred fifteen dollars and fifty-seven cents (\$1,294,315.57) representing the aggregate purchase price for the Company's purchase of Mr. Saraf's ownership of 331,027 shares of the Company's common stock (the "Purchase Price"), of which \$82,757 was recorded as compensation expense for the excess paid over the fair value of the stock, determined as the closing market price per share on the Separation Date;

a payment of nine hundred ninety-five thousand one hundred fourteen dollars and thirty-eight cents (\$995,114.38) representing the aggregate payment by the Company to Mr. Saraf for the exercisable stock options held by Mr. Saraf for 290,073 shares of the Company's common stock pursuant to his stock option agreements (the "Option Payment"), of which \$69,753 was recorded as compensation expense for the excess paid over the fair value of the stock options on the Separation Date. Date using Black-Sholes calculatons with a Risk Free Interest Rate of .55%, a Volatility of 29.2%, a dividend rate of 0% and a life of 1 year consistent with the contract expiration of these options;

a payment of four hundred ten thousand five hundred seventy dollars and five cents (\$410,570.05) representing the payment by the Company for severance (the "Severance Payment" and together with the Purchase Price and Option Payment, collectively, the "Separation Payment") which is included in Selling, General and Administrative Expenses in the accompanying Statement of Operations and Comprehensive Loss;

a payment of forty-five thousand dollars and no cents (\$45,000.00) representing Mr. Saraf's premium payments for the continuation of health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for Mr. Saraf and his qualified dependents under the Company's group health insurance plan, as well as incidental medical expenses (the "Benefits Payment") which is included in Selling, General and Administrative

Expenses in the accompanying Statement of Operations and Comprehensive Loss;

the execution of all necessary documents and payment of the applicable fees and costs to convey to Mr. Saraf the title of ownership in the vehicle that he has used as a Company vehicle, with a fair market value of \$18,500.00 ("Vehicle Value"), within ten days of the Effective Date (the "Vehicle Transfer") which is included in Selling, General and Administrative Expenses in the accompanying Statement of Operations and Comprehensive Loss;

the execution of all necessary documents to transfer the Company's cellular telephone assigned to and being used by Mr. Saraf as of the date of the Separation Agreement within ten days of the Effective Date (the "Cell Phone Transfer" and together with the Benefits Payment and Vehicle Transfer, collectively, the "Additional Consideration");

a payment of ninety-six thousand four hundred fifty-one dollars and sixty-eight cents (\$96,451.68), which represents payment for unused paid vacation through the Separation Date which represented a reduction of Accrued Expenses and Other Current Liabilities in the accompanying Balance Sheets; and

a payment for the reimbursement of Mr. Saraf's reasonable and necessary business expenses incurred in the performance of his duties on or before the Separation Date following the Company's receipt from Mr. Saraf of written itemized expense accounts and such additional substantiation and justification as the Company may reasonably request.

On July 22, 2016, Mr. Saraf and the Company also entered into the Option Cancellation Agreement (the "Option Cancellation Agreement") for the purpose of documenting the termination and cancellation of the exercisable stock options held by Mr. Saraf for 290,073 shares of the Company's common stock pursuant to his stock option agreements in exchange for the Option Payment as of the Effective Date. The foregoing summary of the Option Cancellation Agreement is qualified in its entirety by the text of the Option Cancellation Agreement. A copy of the Option Cancellation Agreement is attached as Exhibit 10.2 to the Company's July 27, 2016 Form 8-K.

The Company included the total excess paid over fair value (\$152,510) to Mr. Saraf for his common stock and stock options in Selling, General and Administrative Expenses in the accompanying Statement of Operations and Comprehensive Loss. The Company included the total fair value paid (\$2,136,920) to Mr. Saraf for his common stock and stock options as cash flow from financing activities in the accompanying Statements of Cash Flows and as an increase to Treasury Stock and reduction in Additional Paid in Capital in the accompanying Balance Sheets.

13. SUBSEQUENT EVENTS:

The Company evaluated subsequent events and transactions that occurred after the August 31, 2016 unaudited condensed balance sheet date for potential recognition or disclosure in the condensed financial statements.

On November 11, 2016, the Board of Directors authorized up to \$1.0 million of its cash to be available for investment in securities other than short-term, low yield instruments. These investments will be managed and monitored by the CEO and the Board's Chairman, respectively.

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 unaudited 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 29, 2016 and the Unaudited Condensed Financial Statements and the related Notes to Unaudited Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the unaudited 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 cash and cash equivalents, investment in Treasury bills and Certificates of Deposit, accounts receivable, revenue recognition, earnings per common share, shipping and handling, and inventories. A discussion of these critical accounting policies are included 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 29, 2016.

Trends and Uncertainties:

During the three months ended August 31, 2016, the Company's book-to-bill ratio was approximately .97 as compared to approximately .18 for the three months ended August 31, 2015, reflecting an increase in the volume of orders booked. The Company does not believe that, in most years, the year-to-year 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. Subsequent to the three months ended August 31, 2016, the Company has been advised by one of its key customers that it has been in the process of seeking out additional or alternative sources for some of the Company's products, which has resulted in order delay and a decline in the Company's backlog. The Company is addressing the concerns of the customer, but it is uncertain if the Company will be successful in addressing the customer's concerns.

Results of Operations-Three Months Ended August 31, 2016 Compared to Three Months Ended August 31, 2015:

Net sales for the three months ended August 31, 2016 decreased 15% to \$1,875,000 as compared to \$2,212,000 for the three months ended August 31, 2015. This decrease was primarily attributable to a decrease in the level of orders of products that were shipped in accordance with customer requirements.

Cost of sales for the three months ended August 31, 2016 increased 5% to 1,721,000 as compared to \$1,646,000 for the three months ended August 31, 2015, primarily due to an increase in inventory reserves of \$145,000. Expressed as a percentage of net sales, cost of sales increased to 92% as compared to 74% for the same period in 2015.

Gross profit for the three months ended August 31, 2016 decreased to \$154,000 from \$566,000 for the three months ended August 31, 2015, mostly due to the lower level of sales. Accordingly, gross margins on the Company's sales decreased to 8% for the three months ended August 31, 2016 from 26% for the three months ending August 31, 2015.

For the three months ended August 31, 2016, the Company shipped 16,113 units as compared to 20,623 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.

For the three months ended August 31, 2016, the Company's backlog of open orders decreased 2% to \$4,485,000 as compared to the backlog of \$4,588,000 as of August 31, 2015. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

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For the three months ended August 31, 2016, the Company's level of bookings were \$1,828,000, an increase of \$1,420,000, or 348%, as compared to the level of bookings of \$408,000 in the three months ended August 31, 2015. The increase in bookings for the three months ended August 31, 2016 is principally a result of an increase in the placement of orders by key customers.

Selling, general, and administrative expenses increased 122% to \$1,674,000 for the three months ended August 31, 2016 from \$755,000 for the three months ended August 31, 2015. Both quarters experienced higher than normal costs. In the August 31, 2015 quarter the Company experienced increased costs due to the proxy contest in connection with its 2015 annual stockholders' meeting. The increase in the August 31, 2016 quarter was primarily due to costs associated with the separation agreement the Company entered into with its former CEO and certain proxy reimbursement expenses as reported in the Company's 8-K filing on July 27, 2016. Costs related to the separation agreement included \$627,000 of payments associated with the retirement of the former Chief Executive Officer (see Note 12 above), \$22,000 of associated payroll taxes, \$100,000 of legal fees, and \$170,000 of proxy settlement costs. The increase also reflects higher wages due to the use of temporary staffing in the finance department, consulting fees, and \$48,000 of director bonuses (\$12,000 per director). During the three months ended August 31, 2016, selling, general, and administrative expenses as a percentage of net sales increased to 89% as compared with 34% for the three months ended August 31, 2015.

Operating (loss) for the three months ended August 31, 2016 was (\$1,520,000) as compared to operating income (loss) of (\$189,000) for the three months ended August 31, 2015. The increased loss is due primarily to lower sales and higher selling, general and administrative expenses.

Interest income for the three months ended August 31, 2016 increased to \$10,000 as compared to \$4,000 for the three months ended August 31, 2015. This change is due primarily to the rate of return on funds invested in certificates of deposit and treasury bills.

The Company had no other income for the three months ended August 31, 2016 and August 31, 2015.

Total comprehensive (loss) for the three months ended August 31, 2016 was (\$1,501,000) as compared to a total comprehensive (loss) of (\$178,000) for the three months ended August 31, 2015. The increased loss is due primarily to a decrease in net sales and an increase in selling, general and administrative expenses

Results of Operations-Six Months Ended August 31, 2016 Compared to Six Months Ended August 31, 2015:

Net sales for the six months ended August 31, 2016 decreased 20% to \$3,688,000 as compared to \$4,595,000 for the six months ended August 31, 2015. This decrease was primarily attributable to a decrease in the level of orders of products that were shipped in accordance with customer requirements.

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Cost of sales for the six months ended August 31, 2016 decreased 10% to \$3,176,000 as compared to \$3,527,000 for the three months ended August 31, 2015, mostly due to the lower level of sales. Expressed as a percentage of sales, cost of sales increased to 86% as compared to 77% for the same period in 2015.

Gross profit for the six months ended August 31, 2016 decreased to \$512,000 from \$1,068,000 for the six months ended August 31, 2015, mostly due to the lower level of sales. Accordingly, gross margins on the Company's sales decreased to 14% for the six months ended August 31, 2016 from 23% for the six months ending August 31, 2015.

For the six months ended August 31, 2016, the Company shipped 36,942 units as compared to 40,427 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.

For the six months ended August 31, 2016, the Company's backlog of open orders decreased 23% to \$4,485,000 as compared to the backlog of \$5,832,000 as of February 29, 2016. The Company's backlog as of August 31, 2016 is 2% lower than the backlog of \$4,588,000 as of August 31, 2015. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company experienced an increase of \$345,000, or 17% to \$2,341,000 in the level of bookings during the six months ended August 31, 2016 as compared to the six months ended August 31, 2015. The increase in bookings for the six months ended August 31, 2016 is principally a result of an increase in the placement of orders by key customers.

Selling, general, and administrative expenses increased 79% to \$2,185,000 for the six months ended August 31, 2016 from \$1,222,000 for the six months ended August 31, 2015. The increase in costs was primarily due to costs associated with the separation agreement the Company entered into with its former CEO and certain proxy reimbursement expenses as reported in the Company's 8-K filing on July 27, 2016. Costs related to the separation agreement included \$627,000 of payments associated with the retirement of the former Chief Executive Officer (see Note 12 above), \$22,000 of associated payroll taxes, \$100,000 of legal fees, and \$170,000 of proxy settlement costs. The increase also reflects higher wages due to the use of temporary staffing in the finance department, consulting fees, and \$48,000 of director bonuses (\$12,000 per director). During the six months ended August 31, 2016, selling, general, and administrative expenses as a percentage of net sales increased to 59% as compared with 27% for the six months ended August 31, 2015.

Operating (loss) for the six months ended August 31, 2016 was (\$1,673,000) as compared to operating (loss) of (\$154,000) for the six months ended August 31, 2015. The increased loss is due primarily to lower sales and higher selling, general and administrative expenses.



Interest income for the six months ended August 31, 2016 increased to \$20,000 as compared to \$12,000 for the six months ended August 31, 2015. This change is due primarily to the rate of return on funds invested in certificates of deposit and treasury bills.

The Company had no other income for the six months ended August 31, 2016 and ended August 31, 2015.

Total comprehensive (loss) for the six months ended August 31, 2016 was (\$1,653,000) as compared to total comprehensive (loss) of (\$142,000) for the six months ended August 31, 2015. The increased loss is due primarily to lower sales and higher selling, general and administrative expenses.

Liquidity and Capital Resources:

Operating Activities:

Net cash used in operating activities was \$1,439,000 for the six months ended August 31, 2016 primarily reflecting a net loss of \$1,653,000, an increase in accounts receivable of \$323,000, and an increase in inventory of \$105,000, offset by depreciation of \$97,000, and higher accounts payable of \$587,000.

Net cash provided by operating activities was \$41,000 for the six months ended August 31, 2015 primarily reflecting a net loss of \$142,000 and a decrease in accounts payable of \$166,000 offset by depreciation and amortization of \$105,000 and a decrease in inventory of \$297,000.

Investing Activities:

Net cash provided by investing activities was \$3,829,000 for the six months ended August 31, 2016 principally reflecting \$4,000,000 in sales of treasury bills and certificates of deposit, and \$171,000 in purchases of property, plant and equipment.

Net cash provided by investing activities was \$142,000 for the six months ended August 31, 2015 principally reflecting \$3,154,000 in sales of treasury bills and certificates of deposit, \$2,893,000 in purchases of treasury bills and certificates of deposit, and \$119,000 in purchases of property, plant and equipment.

Financing Activities:

Net cash used in financing activities was \$2,137,000 for the six months ended August 31, 2016 reflecting payments associated with the retirement of the former Chief Executive Officer (see Note 12).

Net cash used in financing activities was \$557,000 for the six months ended August 31, 2015 primarily reflecting a \$575,000 dividend paid to stockholders partially offset by a net \$18,000 of cash received by the Company in connection with the exercise of stock options by an Executive of the Company and other Company employees. The net \$18,000 consisted of \$148,000 paid by an Executive of the Company and \$1,000 paid by other employees in connection with the exercise of stock options offset by the Company's payment of \$130,000 of federal income taxes due in exchange for withholding of 29,315 shares of the Company's common stock that the Executive of the Company would have otherwise received in connection with his option exercise.

Subject to the following discussion, the Company expects its liquidity over the next twelve months to come from cash generated from operations, cash on hand and cash invested in Treasury bills and certificates of deposit. The Company anticipates that its capital expenditures required to sustain operations will be approximately \$150,000 during the balance of the current fiscal year and will be funded from operations and/or available cash.

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 declining level of bookings, but with 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 and cash from operations to satisfy its operating needs over the next twelve months. However, due to the level of current backlog, projected new order intake, the status of the general economy and the shift to Commercial Off-The-Shelf (COTS) by the defense industry, the Company might be required to take cost cutting and productivity enhancing activity to assure its continued profitability.

Over the long-term, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company believes that it will generate sufficient cash from operations to satisfy its operating needs over the next twelve months. In the event that bookings in the long-term decline significantly below the level experienced during the previous two fiscal years, 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.

At August 31, 2016 and February 29, 2016, the Company had cash on hand of approximately \$888,000 and \$634,000, respectively. The cash increase for the six months ended August 31, 2016 was primarily due to the sale of treasury bills and certificates of deposit.

At August 31, 2016 and February 29, 2016, the Company had investments in treasury bills and certificates of deposit of approximately \$2,739,000 and \$6,740,000, respectively.

At August 31, 2016, the Company had working capital of \$7,204,000 as compared with a working capital at February 29, 2016 of \$11,068,000. The working capital decrease for the six months ended August 31, 2016 was primarily due to cash used in operations and financing activities.

Based on various factors, including the Company's desire to fully utilize its current net operating loss carryforwards, the Company may seek out acquisitions, additional product lines, and/or invest a portion of its cash into common stocks or higher yielding debt instruments. The Company will continue to consider additional share repurchases under the Company's stock repurchase program.

#### Cash Dividend:

The Board of Directors of the Company did not declare a cash dividend during the three and six months ended August 31, 2016. In July 2015, the Company paid a dividend of \$0.25 per share to all stockholders of record at the close of business on June 29, 2015. The aggregate dividend payment was approximately \$575,000.

#### Stock Repurchase Program:

On May 29, 2015, the Company announced that its Board of Directors authorized a stock repurchase program under which the Company may repurchase up to \$500,000 of its outstanding common stock from time to time through February 29, 2016. On July 28, 2015, the Company announced that the Board of Directors had expanded the stock repurchase program to cover repurchases of up to \$1,000,000 of its outstanding common stock from time to time through February 29, 2016. On November 20, 2015, the Company purchased for \$279,616 a total of 65,027 shares of the Company's common stock pursuant to the repurchase program. On January 15, 2016, the Board of Directors of the Company amended the repurchase program under which the Company may repurchase up to \$1,000,000 of its outstanding common stock without an expiration date to the repurchase program. Under the repurchase program, repurchases may be made by the Company from time to time on the open market or in privately negotiated

transactions depending on markets conditions, stock price, corporate and regulatory requirements, and other factors.

The Company did not repurchase any shares under the stock repurchase program during the six months ended August 31, 2016. See Note 12 for shares and options repurchased from the former Chief Executive Officer.

Retirement of Former Chief Executive Officer:

See Note 12.

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 29, 2016, including those identified below. We do not undertake any obligation to update forward-looking statements, except as required by law.

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

Loss of, or reduction of business from, substantial clients could hurt our business by reducing our revenues, profitability and cash flow.

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 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.

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.

Failure to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.

We cannot promise that we will have sufficient capital resources to make necessary investments in manufacturing technology and equipment.

We may make substantial investments in plant and equipment that may become impaired.

While we attempt to monitor the credit worthiness of our customers, we may be at risk due to the adverse financial condition of one or more customers.

Our international operations expose us to material risks, including risks under U.S. export laws.

Security breaches and other disruptions could compromise the integrity of our information and expose us to liability, which would cause our business and reputation to suffer.

The price of our common stock has fluctuated widely in the past and may fluctuate widely in the future.

We cannot guarantee that we will declare future cash dividend payments at historic rates or at all, nor repurchase any shares of our common stock pursuant to our stock repurchase program.

Compliance with regulations regarding the use of "conflict minerals" could limit the supply and increase the cost of certain metals used in manufacturing our products.

Our failure to remediate the material weakness in our internal control over financial reporting or our identification of any other material weaknesses in the future may adversely affect the accuracy and timing of our financial reporting.

ITEM 4. CONTROLS AND PROCEDURES

**Our Evaluation of Disclosure Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of its management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e), and 15d-15(e) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of August 31, 2016 due to the material weakness described in the Company's Annual Report on Form 10-K for the year ended February 29, 2016 under "Management's Report on Internal Control over Financial Reporting". However, giving full consideration to the material weakness and the remediation plan, the Company's management has concluded that the Company's financial statements included in this Quarterly Report fairly present, in all material respects, the Company's financial condition and results of operations as of and for the three months ended August 31, 2016.

**Changes in Internal Control over Financial Reporting.**

Other than the changes referenced in the Company's Annual Report on Form 10-K for the year ended February 29, 2016 under "Management's Report on Internal Control over Financial Reporting", there were no changes in the Company's internal control over financial reporting during the second quarter ended August 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of August 31, 2016, we had no known material current, pending, or threatened litigation.

ITEM 6. EXHIBITS

Exhibits

- 3.1 Amended and Restated By-Laws of Solitron Devices, Inc. (incorporated by reference to the Form 8-K filed on July 27, 2016).
- 10.1 Separation and General Release Agreement, dated July 22, 2016, between Shevach Daraf and Solitron Devices, Inc. (incorporated by reference to the Form 8-K filed on July 27, 2016) (a portion of this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment).
- 10.2 Option Cancellation Agreement, dated July 22, 2016, between Shevach Saraf and Solitron Devices, Inc. (incorporated by reference to the Form 8-K filed on July 27, 2016).
- 31.1 Certification of Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.1 Certification of Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB\* XBRL Taxonomy Label Linkbase
- 101.PRE\* XBRL Taxonomy Presentation Linkbase

\* Filed herewith

\*\*Furnished herewith

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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: November 18, 2016 /s/ Tim Eriksen  
Tim Eriksen  
Chief Executive Officer,  
and Interim Chief Financial Officer

EXHIBIT INDEX

| EXHIBIT<br>NUMBER | DESCRIPTION   |
|-------------------|---|
| 31.1              | Certification of Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.** |
| 32.1              | Certification of Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101.INS*          | XBRL Instance Document  |
| 101.SCH*          | XBRL Taxonomy Extension Schema  |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase   |
| 101.LAB*          | XBRL Taxonomy Label Linkbase  |
| 101.PRE*          | XBRL Taxonomy Presentation Linkbase   |

\* Filed herewith

\*\*Furnished herewith