

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

SOLITRON DEVICES INC
Form 10KSB
June 16, 2004

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

FORM 10-KSB

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

For the fiscal year ended February 29, 2004

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

Commission File No. 1-4978

SOLITRON DEVICES, INC.

(Name of Small Business Issuer in Its Charter)

Delaware

22-1684144

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer Identification Number)

3301 Electronics Way, West Palm Beach, Florida

33407

(Address of Principal Executive Offices)

(Zip Code)

Issuer's telephone number, including area code: (561) 848-4311

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

Title of Each Class

Name of Each Exchange on Which Registered

None

N/A

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

Common Stock, \$0.01 par value

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year: \$7,690,000.

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

The aggregate market value of the registrant's common stock, par value \$.01 per share, held by non-affiliates of the registrant, based upon the closing market price as of June 14, 2004, was approximately \$1,245,811.

The number of shares outstanding of each of the issuer's classes of common stock, as of June 14, 2004: 2,076,351 shares of common stock, par value \$.01 per share.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format:

Yes No

1

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

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

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

PRODUCTS

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

Set forth below by principal product type are the percentage (i) contributions to the Company's total sales of each of the Company's principal product lines for the fiscal year ended February 29, 2004 and for the fiscal year ended February 28, 2003 and (ii) contributions to the Company's total order backlog at February 29, 2004 and February 28, 2003.

Product	% of Total Sales for Fiscal Year Ended February 29, 2004	% of Total Sales for Fiscal Year Ended February 28, 2003	Backlog at February 29, 2004	Backlog at February 28, 2003
Power Transistor	18%	17%	14%	18%
Hybrids	59%	53%	66%	62%
Field Effect Transistors	5%	6%	3%	5%

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Power MOSFETS	18%	24%	17%	15%
	-----	-----	-----	-----
	100%	100%	100%	100%

The Company's backlog at February 29, 2004 and revenue for the year ended February 29, 2004 reflect demand for the Company's products at such date and for such period. For more information, see "Backlog". The variation in the proportionate share of each product line for each period reflects changes in demand, changes emanating from the Congressional appropriations process and timing associated with awards of defense contracts, as well as shifts in technology and consolidation of defense prime contractors.

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

It is customary to subdivide active electronic components into those of a discrete nature and those, which are non-discrete. Discrete devices contain one single semiconductor element; non-discrete devices consist of integrated circuits or hybrid circuits, which contain two or more elements, either active or passive, interconnected to make up a selected complete electrical circuit. In the case of an integrated circuit, a number of active and passive elements are incorporated onto a single silicon chip. A hybrid circuit, on the other hand, is made up of a number of individual components that are mounted onto a suitable surface material, interconnected by various means, and suitably encapsulated. Hybrid and integrated circuits can either be analog or digital; presently, the Company manufactures only analog components. The Company's products are either standard devices, such as catalog type items (e.g., transistors

2

and voltage regulators), or application-specific devices, also referred to as custom or semi-custom products. The latter are designed and manufactured to meet a customer's particular requirements. For the fiscal year ended February 29, 2004 approximately 90% of the Company's sales have been of custom products, and the remaining 10% have been of standard or catalog products.

Approximately 93% of the semiconductor components produced by the Company are manufactured pursuant to approved Source Control Drawings (SCD) from the United States government's prime contractors; the remainder are primarily JAN qualified products approved for use by the military. The Company's semiconductor products are used as components of military, commercial and aerospace electronic equipment, such as ground and airborne radar systems, power distribution systems, missiles, missile control systems and spacecraft. The Company's products have been used on the space shuttle and on spacecraft sent to the moon, to Jupiter (on Galileo) and, most recently, to Mars (on Global Surveyor and Mars Sojourner). Approximately 94% of the Company's sales have historically been attributable to contracts with customers whose products are sold to the United States government. The remaining 6% of sales are for non-military, scientific and industrial applications.

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

Power Transistors:

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

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

Hybrids:

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

The Company has been certified (since 1990) and qualified (since 1995) under MIL-PRF-38534 Class H (and its predecessor) standards promulgated by the DSCC. These standards specify the uniformity and quality of hybrid products purchased for United States military programs. The purpose of the program is to standardize the documentation and testing for hybrid microcircuits for use in

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

Voltage Regulators:

The Company also qualified a line of voltage regulators in accordance with Class M of MIL-PRF-38535 Class M, which allows it to sell these products in accordance with SMD specifications published by DSCC. The Company also makes standard and custom voltage regulators.

Field Effect Transistors:

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

MANUFACTURING

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

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

In the case of hybrids, design engineers formulate the circuit and layout designs. Ceramic substrates are then printed with thick film gold conductors to form the interconnect pattern and with thick film resistive inks to form the

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

resistors of the designed circuit. Semiconductor chips, resistor chips, capacitor chips and inductors are then mounted on the substrates and sequential wire bonding is used to interconnect the various components to the printed substrate, as well as to connect the circuit to the external package pins. The Company manufactures approximately 30% of the hybrid packages it uses and purchases the balance from suppliers.

4

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

ISO 9001:2000

In March 2000, Underwriters Laboratories awarded the Company ISO 9001 qualification. The ISO 9001 Program is a series of quality management and assurance standards developed by a technical committee of the European Community Commission working under the International Organization for Standardization. During the Fiscal Year ended February 29, 2004 the Company underwent two additional surveillance audits that resulted in recertification. During the August, 2003 surveillance audit, the Company was qualified as meeting the new ISO 9001:2000 standard. Management believes that such qualification will continue to open the Company to additional business opportunities that were not available prior to such qualification.

FINANCIAL INFORMATION ABOUT EXPORT SALES AND MAJOR CUSTOMERS

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

MARKETING AND CUSTOMERS

The Company's products are sold throughout the United States and abroad primarily through a network of manufacturers' representatives and distributors. The Company is represented (i) in the United States by three representative organizations that operate out of 9 different locations with 7 salespeople and 2 stocking distributor organizations that operate out of 39 locations with 270 salespeople and (ii) in the international market by 2 representative organizations in 2 countries with 4 sales people. Some of the international groups serve as distributors as well as sales representatives. The Company also directly employs several sales, marketing, and application engineering personnel to coordinate operations with the representatives and distributors and to handle key accounts.

During the fiscal year ended February 29, 2004, the Company sold products to approximately 163 customers. Of these 163 customers, 59 had not purchased products from the Company during the previous fiscal year. During the fiscal year ended February 29, 2004, Raytheon accounted for approximately 41% of net sales, as compared to the 45% it accounted for during the fiscal year ended February 28, 2003. The U.S. government, accounted for approximately 11% of total net sales, as compared to approximately 9% for the fiscal year ended February 28, 2003. Other than Raytheon and the U.S. Government, the Company had no customers, which accounted for more than 10% of net sales during the last fiscal year. Fifteen of the Company's customers accounted for approximately 85% of the Company's sales during the fiscal year ended February 29, 2004. It has been the

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Company's experience that a large percentage of its sales have been attributable to a relatively small number of customers in any particular period. As a result of the mergers and acquisitions in general, and among large defense contractors in particular, the number of large customers will continue to decline in number, but this does not necessarily mean that the Company will experience a decline in sales. The Company expects customer concentration to continue. The loss of any major customer without offsetting orders from other sources would have a material adverse effect on the business, financial condition and results of operations of the Company.

During the fiscal year ended February 29, 2004 and since that date, a substantial portion of the Company's products were sold pursuant to contracts or subcontracts with or to customers whose end products are sold to the United States government. Accordingly, the Company's sales may be adversely impacted by Congressional appropriations and changes in national defense policies and priorities. As a result of such Congressional appropriations and significant changes in military spending in recent years, the Company had a 2% increase in net bookings during the fiscal year ended February 29, 2004 as compared to the previous year. All of the Company's contracts with the United States government or its prime contractors contain provisions permitting termination at any time at the convenience of the United States government or the prime contractor upon payment to the Company of costs incurred plus a reasonable profit.

In recognition of the changes in global geopolitical affairs and in United States military spending, the Company is attempting to increase sales of its products for non-military, scientific and industrial niche markets, such as medical electronics, machine tool controls, LEOS (Low Earth Orbit Satellites) telecommunications networks and other market

5

segments in which purchasing decisions are generally based primarily on product quality, long-term reliability and performance, rather than on product price.

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

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

Sales to foreign customers, located mostly in Canada, Western Europe and Israel, accounted for approximately 9% of the Company's net sales for the fiscal year ended February 29, 2004 as compared to 10% for the year ended February 28, 2003. All sales to foreign customers are conducted utilizing exclusively U.S. dollars.

BACKLOG

The Company's order backlog, which consists of semiconductor and hybrid related open orders, more than 90% of which are scheduled for delivery within 12 months, was approximately \$5,963,000 at February 29, 2004, as compared to \$5,193,000 as of February 28, 2003. The entire backlog consisted of orders for electronic components. The Company currently anticipates that the majority of its open order backlog will be filled by February 28, 2005. In the event that bookings in

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

the long-term decline significantly below the level experienced in the last fiscal year, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Bookings and Backlog."

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

The rate of booking new orders varies significantly from month to month, mostly as a result of sharp fluctuations in the government budgeting and appropriation process. The Company has historically experienced somewhat decreased levels of bookings during the summer months, primarily as a result of such budgeting and appropriation activities. For these reasons, and because of the possibility of customer changes in delivery schedules or cancellations of orders, the Company's backlog as of any particular date may not be indicative of actual sales for any succeeding period. See "Management's Discussions and Analysis of Financial Conditions - Result of Operations" for a discussion of the increase in bookings for the year ended February 29, 2004 as compared to the previous year.

PATENTS AND LICENSES

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

6

COMPETITION

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

market for high-end industrial custom power modules and custom motor controllers where the Company's capabilities can offer a technological advantage to customers in the motor driver, and power supplies industries. However, there is no guarantee that the Company will be successful in this effort.

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

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

EMPLOYEES

At February 29, 2004, the Company had 90 employees (as compared to 86 at February 28, 2003), 65 of whom are engaged in production activities, 3 in sales and marketing, 6 in executive and administrative capacities and 16 in technical and support activities. Of the 90 employees, 84 were full time employees and 6 were part time employees.

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

SOURCES AND AVAILABILITY OF RAW MATERIAL

The Company purchases its raw materials from multiple suppliers and has a minimum of two suppliers for all of its material requirements. A few of the key suppliers of raw materials and finished packages purchased by the Company are: Egide USA Inc., Platronics Seals, Kyocera America, Morgan Advanced Ceramics, Coining, Kilburn Isotronics, IXYS, Purecoat International, Stellar Industries, and others. Because of a diminishing number of sources of component packages the Company has been obliged to pay higher prices, which consequently has increased costs of goods sold. Should a shortage of three-inch silicon wafers occur, we might not be able to switch our manufacturing capabilities to another size wafer in time to meet our customer's needs, leading to lost revenues.

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

EFFECT OF GOVERNMENT REGULATION

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

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL REGULATION

While the Company believes that it has the environmental permits necessary to conduct its business and that its operations conform to present environmental regulations, increased public attention has been focused on the environmental impact of semiconductor manufacturing operations. The Company, in the conduct of its manufacturing operations, has handled and does handle materials that are considered hazardous, toxic or volatile under federal, state and local laws and, therefore, is subject to regulations related to their use, storage, discharge and disposal. No assurance can be made that the risk of accidental release of such materials can be completely eliminated. In the event of a violation of environmental laws, the Company could be held liable for damages and the costs of remediation and, along with the rest of the semiconductor industry, is subject to variable interpretations and governmental priorities concerning environmental laws and regulations. Environmental statutes have been interpreted to provide for joint and several liability and strict liability regardless of actual fault. There can be no assurance that the Company and its subsidiaries will not be required to incur costs to comply with, or that the operations, business or financial condition of the Company will not be materially adversely affected by current or future environmental laws or regulations.

ENVIRONMENTAL LIABILITIES

The Company is currently engaged in negotiations with the United States Environmental Protection Agency ("USEPA") to resolve the Company's alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida; Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Disposal Superfund Site, Santa Barbara County, California; and Solitron Devices Site, Riviera Beach, Florida. USEPA contends that the Company is liable for a share of past and future costs incurred by USEPA in connection with the investigation and remediation of the sites. At a meeting with USEPA on March 23, 2001, USEPA contended that the Company's alleged share of liability at the four (4) sites totals approximately \$7.65 million, which USEPA broke down on a site by site basis as follows: Solitron Microwave, Port Salerno - \$3.8 million; Petroleum Products - \$150,000; Casmalia Disposal - \$2.7 million; and Solitron Devices, Riviera Beach - \$1 million.

In addition to the claims asserted by USEPA against the Company at the Casmalia Disposal Superfund Site, claims have been asserted against the Company by a group of alleged responsible parties formed at the site for all past and future cleanup expenses incurred or to be incurred by the respective group. During the negotiations with USEPA to resolve the Company's alleged liability at all sites, the Company was advised by USEPA that a settlement with USEPA would most likely resolve the claims of the groups of alleged responsible parties formed at the Casmalia Disposal Superfund Sites. Preliminary communications with attorneys

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

representing the respective groups support USEPA's representations in this regard.

The Company contends that the claims of USEPA and the Casmalia private party group referenced above were discharged in bankruptcy pursuant to the Bankruptcy Court's Order Confirming Solitron's Fourth Amended Plan of Reorganization, entered in August 1993. Nevertheless, the Company is negotiating with USEPA to settle its outstanding liability at all sites based on an ability to pay ("ATP") determination.

Following a settlement conference on October 24, 2003, the Company received a final ATP Multi-Site Settlement Agreement from EPA on January 23, 2004. The substantial provisions of the Agreement obligate the Company to pay to EPA the sum of \$74,000 over two years, in equal quarterly payments, plus interest. In addition, the Company is obligated to pay to EPA the sum of \$10,000 or 5% of Solitron's net after-tax income over the first \$500,000, if any, whichever is greater, for years 3-7 following the effective date of the Agreement. The Company signed the Agreement and returned it to EPA for execution on January 26, 2004. After receipt of the signed Agreement, EPA notified the Company that

8

additional edits to the Agreement may be necessary. The Company expects to complete negotiations with EPA in 2004. Once the agreement becomes effective, it is anticipated that EPA will recommend to the PRP group at the Casmalia Disposal Superfund Site that the group release the Company from further liability at the site upon the Company's compliance with the Agreement.

On August 7, 2002, the Company received a Request for Information from the State of New York Department of Environmental Conservation ("NYDEC"), seeking information on whether the Company had disposed of certain wastes at the Clarkstown Landfill site located in the Town of Clarkstown, Rockland County, New York. By letter dated August 29, 2002, the Company responded to the Request for Information and advised NYDEC that the Company's former Tappan, New York facility closed in the mid-1980s, prior to the initiation of the Company's bankruptcy proceedings described above. The Company contends that, to the extent that NYDEC has a claim against the Company as a result of the Company's alleged disposal of wastes at the Clarkstown landfill prior to the closing of the Company's former Tappan facility in the mid-1980s, the claim was discharged in bankruptcy as a result of the Bankruptcy Court's August 1993 Order referenced above. The Company entered into a Tolling Agreement with the State of New York in August 2003, which provides for the tolling of applicable statutes of limitation through the earlier of August 23, 2004 or the date the State institutes a suit against Solitron, for any claims associated with the Clarkstown Landfill site. It is not known at this time whether the State of New York will pursue a claim against the Company in connection with the Clarkstown Landfill site.

BANKRUPTCY PROCEEDINGS

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

case.

Pursuant to the Plan of Reorganization, beginning in approximately May 1995, the Company was required to begin making quarterly payments to holders of unsecured claims until they receive 35% of their claims. However, due to negotiations between the parties, the unsecured creditors agreed to a deferment of this payment (for more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations"). At the time, it was estimated that there was an aggregate of approximately \$7,100,000 in unsecured claims and, accordingly, that the Company was required to pay approximately \$2,292,000 to holders of allowed unsecured claims in quarterly installments of approximately \$62,083. During the fiscal year ended February 29, 2004, the Company reached agreement with one unsecured creditor under which \$5,000 was paid as settlement of slightly less than \$114,000 of recorded debts to unsecured creditors. Other income of approximately \$109,000 from extinguishment of debt was consequently recorded.

Beginning on the date the Company's net after tax income exceeds \$500,000, the Company is obligated to pay (on an annual basis) each of the holders of unsecured claims (pro rata) and Vector Trading and Holding Corporation ("Vector"), a successor to certain assets and liabilities of the Company, and Vector's participants and successors, 5% of its net after tax income in excess of \$500,000 until the tenth anniversary of the Effective Date, up to a maximum aggregate of \$1,500,000 to the holders of unsecured claims (pro rata) and up to a maximum aggregate of \$1,500,000 to Vector participants and their successors (the "Profit Participation"). As the Company earned \$637,000 in the fiscal year ended February 28, 2001, net after the accrual of \$15,000 for the Profit Participation, it distributed, during the fiscal year ended February 28, 2002 approximately \$7,500 to its unsecured creditors and approximately \$7,500 to Vector and its successors in interest as contemplated by the Plan. As net income for the fiscal year ended February 28, 2003 did not exceed \$500,000, there were no distributions related to such fiscal year. As the level of income for the fiscal year ended February 29, 2004 did not exceed \$500,000 no such payments are anticipated.

Pursuant to the Plan, the monies to be utilized to fund environmental assessments and remediations are to be made available from the proceeds of the sale or lease of the Port Salerno and the Riviera Beach properties, to the extent that the Company is successful in its efforts to sell or lease such properties, as discussed in "Environmental Liabilities". The Plan also required that to the extent the proceeds from the sale or lease of these properties are not sufficient to pay for the remediation, the Company would escrow monthly amounts. As of February 29, 2004, the Company has deposited \$90,000 in the required escrow accounts, including \$19,000 that has been paid out in connection with the Riviera Beach Property. The Riviera Beach property was sold on October

9

12, 1999 by the Company. Under the terms of the sale, the USEPA received the net proceeds of \$419,000. USEPA also received approximately \$19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. The Port Salerno (formally occupied by Solitron Microwave) property was sold on March 17, 2003. Under the terms of the sale, the USEPA received \$153,155 and Martin County received on behalf of FDEP \$278,148 (the net proceeds). The Company's financial statements reflect liabilities of \$1,416,701 relating to the foregoing assessment and remediation obligations. This best estimate of cleanup costs by the Company's environmental consultants is based on the assumption that the Plan and Consent Final Judgment will be implemented. with respect to environmental liabilities. Given USEPA's assertion of jurisdiction over the properties, the Company cannot give any assurance that actual remediation costs will not exceed the estimate based on compliance with the Plan. Because of the uncertainties of

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

how USEPA will proceed with cleanup of the properties and resolution of the Company's ability to pay application, total costs to the Company cannot be estimated now. For a more definitive description of environmental matters pertaining to the Riviera Beach and Port Salerno Properties, please refer to "Environmental Liabilities".

The Company has not been making agreed payments under the Plan and otherwise to Martin County with respect to tax claims. The following table indicates the approximate cumulative status of amounts due under the Plan of Reorganization as of February 29, 2004:

	Due to Date -----	Paid -----
Martin County	\$ 283,000	\$ 7,957

When the Port Salerno property was sold on March 17, 2003 the Company paid Martin County \$282,502 in Delinquent Real Estate Taxes and \$4,898 in 2002 Real Estate Taxes out of the proceeds of the sale.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's manufacturing operations and its corporate headquarters are located in one leased facility in West Palm Beach, Florida. The Company originally had leased the facility for a term ending December 31, 2001 and subleased approximately 25,000 square feet to S/V Microwave Products, Inc., a private company which bought substantially all the assets and certain liabilities of Solitron's microwave division in 1993. In 2001, the Company renegotiated a new lease to exclude the area previously subleased to S/V Microwave; and, accordingly with the terms of the new lease, had walls constructed and utilities divided so that the space previously occupied by S/V Microwave would be completely separate from the space occupied by the Company. Subsequent to this reduction in space, the Company leases approximately 47,000 sq. ft. of the facility. The new lease is for a term of ten years ending December 31, 2011 and does not include an option to renew the lease under current terms. The Company believes that its facility in West Palm Beach, Florida will be suitable and adequate to meet its requirements currently and for the foreseeable future.

The Company also owned the Port Salerno Property, which consisted of a 42,000 square foot building and 23 acres of undeveloped land located in Port Salerno, Florida. The Port Salerno property was sold on March 17, 2003. On July 27, 1992, the USEPA listed this property on the National Priority List (NPL) for cleanup using monies from its Superfund and is contending that the Company is liable for its response costs. The Company has a pending ability to pay application before USEPA. The detail of the Company and USEPA's positions is set forth in Item 1, "Business - Environmental Liabilities".

ITEM 3. LEGAL PROCEEDINGS

On March 24, 2003 the Company filed a complaint against its landlord, Technology Place, in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida. The complaint alleges breach of contract on several grounds and demands specific performance by the Landlord. The case is expected to be heard in court in late summer or early fall of 2004.

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

The Company's former controller has filed a "Whistleblower" claim with the U.S. Department of Labor, Occupational Safety & Health Administration (OSHA) pursuant to Section 806 of the Sarbanes-Oxley Act of 2002, codified at 185 U.S.C. sec. 1514A, which is also known as the "Corporate and Criminal Fraud Accountability Act of 2002". The matter is being handled as an administrative proceeding before OSHA at this point. At the present time, OSHA is still conducting an investigation of the claim, and OSHA has not yet issued its findings. The claim is being vigorously contested. At this early state, it is difficult to predict the eventual outcome, but an unfavorable outcome before this administrative agency is reasonably possible. Should the claimant prevail on his claim, the damages available to him include back pay, front pay, compensation for loss of benefits, non-economic damages, attorneys' fees and costs. The Company is being defended in this action by its liability insurance carrier, under a reservation of rights.

The Southeast Regional Office of the Securities and Exchange Commission is conducting a formal investigation concerning the Company. To date, the SEC investigation has focused on the propriety of the Company's past accounting. The Company has produced documents to the SEC, and the SEC has taken sworn testimony of several individuals. As of this date, the SEC has not requested a "Wells" submission from the Company, and has not indicated an intention to file any civil or administrative complaint against the Company. An unfavorable outcome of the SEC investigation may have a material adverse effect on the Company's financial condition or results of operations. At this time, we are unable to conclude that the likelihood of an adverse outcome is probable or remote. We therefore are unable to express an opinion as to the likelihood of an unfavorable outcome. We also are unable to express an opinion as to an amount or range of potential loss.

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

None.

11

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

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

	FISCAL YEAR ENDED FEBRUARY 29, 2004 -----		FISCAL YEAR ENDED FEBRUARY 28, 2003 -----	
	HIGH	LOW	HIGH	LOW
First Quarter	\$0.5000	\$0.3300	\$0.2800	\$0.1300
Second Quarter	\$0.8500	\$0.4300	\$0.6000	\$0.1700

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Third Quarter	\$1.1000	\$0.5000	\$0.7200	\$0.2500
Fourth Quarter	\$1.7600	\$0.4300	\$0.6500	\$0.3200

As of June 14, 2004, there were approximately 3,331 holders of record of the Company's Common Stock. On June 14, 2004, the last sale price of the Common Stock as reported on the Electronic Bulletin Board was \$0.60 per share.

Certificates representing 229,787 "old shares" of Common Stock, which were subject to an approximate 10 to 1 reverse split (which was authorized by the Bankruptcy Court on September 1993), have not been exchanged by the stockholders as of February 28, 2003. Subsequent to such stock split, these certificates now represent 22,978 shares of Common Stock, which are included in the 2,076,351 shares outstanding as of February 29, 2004 indicated in the beginning of this filing. These "old shares" have not been included in the number of shares outstanding as set forth in the Company's filings with the commission since the date of such stock split through its Annual Report on Form 10-KSB for the period ended February 29, 2004.

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

During the fiscal year ending February 29, 2004, the Company issued 6,000 shares of its Common Stock to employees who exercised stock options pursuant to the Company's stock option plan.

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

INTRODUCTION

In January 1992, as a result of losses and liquidity deficiencies, the Company and its wholly owned subsidiary, Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On August 20, 1993, the Bankruptcy Court entered an Order of Confirmation confirming the Company's Plan of Reorganization and on August 30, 1993, the Plan of Reorganization became effective, and the Company emerged from bankruptcy. On July 12, 1996, the Bankruptcy Court officially closed the case.

12

The following table is included solely for use in comparative analysis of income before extraordinary items to complement Management's Discussion and Analysis of Financial Condition and Results of Operations:

	(Dollars in Thousands)	
	Year Ended February 28,	
	2004	2003
Net Sales	\$7,690	\$7,347
Cost of sales	6,576	5,887
Gross profit	1,114	1,460
Selling, general and administrative expenses	1,117	1,092
Operating income (loss)	(3)	368
Disposal of non-operating facilities	(0)	(175)
Interest expense	(0)	(18)
Interest expense on unsecured creditors claims	(10)	(26)
Interest income	18	29

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Environmental Expenses Reserve	(0)	113
Other, net	159	3
Net income (loss)	\$ 164	\$ 294

RESULTS OF OPERATIONS

2004 vs. 2003

Net sales for the fiscal year ended February 29, 2004 increased by approximately 4% to \$7,690,000 versus \$7,347,000 during the fiscal year ended February 28, 2003, reflecting a change in the demand for the Company's products due to increased defense spending and economic activity.

Bookings were higher than sales by approximately 9%; thus, the backlog increased from \$5,193,000 as of February 28, 2003 to \$5,963,000 as of February 29, 2004. The Company has experienced an increase in the level of bookings of approximately 2% for the year ended February 29, 2004 as compared to the previous year.

During the year ended February 29, 2004, the Company shipped 373,454 units as compared with 605,442 units shipped during the year ended February 28, 2003. It should be noted that since the Company manufactures a wide variety of products with an average sale price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped might not be a reliable indicator of the Company's performance.

Cost of Sales for the fiscal year ended February 29, 2004 increased to \$6,576,000 from \$5,887,000 during the fiscal year ended February 28, 2003. One reason for this increase was an increase of approximately 4% in sales that resulted in a \$109,000 increase in material costs. Additionally, \$108,000 of work in process was scrapped during the year ending February 29, 2004 and the reserve for obsolete inventory was increased by \$112,000. Expressed as a percentage of sales, cost of sales increased from approximately 80% for the fiscal year ended February 28, 2003 to approximately 85% for the fiscal year ended February 29, 2004.

During the year ended February 29, 2004 the Company's gross profits were \$1,114,000 (15% margin) as compared to \$1,460,000 (20% margin) for the year ended February 28, 2003. The gross profit decrease was due principally to the approximately 11% increase in cost of sales percentage.

During the year ended February 29, 2004, Selling, General and Administrative based expenses, as a percentage of sales, were approximately 14% as compared with 15% for the year ending February 28, 2003. Selling, General and Administrative expenses increased approximately 2% to \$1,118,000 for the fiscal year ended February 29, 2004 from \$1,092,000 for the fiscal year ended February 28, 2003. This increase results from approximately \$83,000 of higher legal and professional fees associated with the SEC investigation and approximately \$46,000 in legal fees associated with the Company's lawsuit against its landlord.

Operating Loss for the fiscal year ended February 29, 2004 was \$3,000 as compared to an operating income of \$368,000 for the fiscal year ended February 28, 2003. This decrease was primarily attributable to an increase in manufacturing overhead and legal and professional fees.

Total interest expense decreased from \$44,000 for the fiscal year ended February 28, 2003 to \$10,000 for the fiscal year ended February 29, 2004 due primarily to

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

lower imputed interest on debt to unsecured creditors.

Interest Expense on unsecured creditors claims for the fiscal year ended February 29, 2004 decreased to \$10,000 from \$26,000 during the fiscal year ended February 28, 2003 primarily due to the lower interest rates in the economy.

Interest Income for the fiscal year ended February 29, 2004 decreased to \$18,000 from \$29,000 during the fiscal year ended February 28, 2003. This decrease was attributable to lower interest rates received from the bank.

Net Income for the fiscal year ended February 29, 2004 was \$164,000 as compared to a Net Income of \$294,000 for the fiscal year ended February 28, 2003. This decrease is attributable to a lower level of Gross Profit, a higher level of manufacturing overhead and higher legal and professional fees.

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. The Company anticipates that its capital expenditures will be approximately \$200,000 for the next Fiscal year.

During the first few fiscal years after its emergence from bankruptcy proceedings, the Company generally experienced losses from operations and severe cash shortages caused by a significant decline in both sales and open order backlog, decreased margins (which is characteristic in the industry) on the Company's products, significant expenses associated with the reorganization proceedings, and the Company's inability to obtain additional working capital through the sale of debt or equity securities or the sale of non-operating assets. However, for the years ended February 29, 2004 and February 28, 2003, the Company recorded a net income of \$164,000 and a net income of \$294,000 respectively.

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

The Company has incurred an operating loss of approximately \$3,000 for the fiscal year ended February 29, 2004 and has significant obligations arising from settlements in connection with its bankruptcy that require the Company to make substantial cash payments that cannot be supported by the current level of operations.

Based upon (i) management's best information as to current national defense priorities, future defense programs, as well as management's expectations as to future defense spending, (ii) the market trends signaling a continued slowdown and soft level of booking and a continued price erosion, and (iii) a continual lack of foreign competition in the defense and aerospace market, the Company believes that it will have sufficient cash on hand to satisfy its operating needs over the next 12 months. However, due to the level of current backlog and new order intake (due to the status of the general economy and the shift to COTS by the defense industry), the Company might operate at a loss during part of the next fiscal year. Thus, based on these factors and at the current bookings, prices, profit margins and sales levels, the Company will not generate

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

sufficient cash to satisfy its operating needs and its obligations to pre-bankruptcy creditors in accordance with the Plan. Thus, it is in continuous negotiations with all claim holders to reschedule these payments. In the event the Company is unable to restructure its obligations to pre-bankruptcy 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 steady as presently anticipated, the Company will generate sufficient cash from operations to sustain operations. In the event that bookings in the long-term decline significantly below the level experienced during the last fiscal year, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. In appropriate situations, the Company may seek strategic alliances, joint ventures with others or acquisitions in order to maximize marketing potential and utilization of existing resources and provide further opportunities for growth. The Company cannot assure you, however, that it will be able to generate sufficient liquidity to meet its operating needs now or in the future.

14

The Company is continuing to negotiate with the unsecured creditors, and the USEPA, in an attempt to arrive at reduced payment schedules. To date, these parties have not expressed objection to the reduced level of payments. However, no assurance can be made that the Company can reach a suitable agreement with the unsecured creditors, USEPA, or obtain additional sources of capital and/or cash or that the Company can generate sufficient cash to meet its obligations.

At February 29, 2004 and February 28, 2003 respectively, the Company had cash and cash equivalents of \$1,883,000 and \$1,448,000. The principal cash change was due to net cash flow from operations.

At February 29, 2004, the Company had working capital of \$2,035,000 as compared with a working capital at February 28, 2003 of \$2,194,000. The principal change was due to an increase in the current portion of pre-petition liabilities.

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

OFF-BALANCE SHEET ARRANGEMENTS

We are not involved in any off-balance sheet arrangements.

BOOKINGS AND BACKLOG

During the fiscal year ended February 29, 2004, the Company's net bookings were \$8,458,000 in new orders as compared with \$8,270,000 for the year ended February 28, 2003, reflecting an increase of approximately 2%. The Company's backlog increased to \$5,963,000 at February 29, 2004 as compared with \$5,193,000 as of February 28, 2003, reflecting a 14% increase. In the event that bookings in the long-term decline significantly below the level experienced in the last fiscal year, the Company may be required to implement further cost-cutting or other downsizing measure to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. Furthermore, the Company cannot assure you that such measures would be sufficient to enable the Company to continue its business operations.

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

FUTURE PLANS

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

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

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

INFLATION

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

15

SEASONALITY

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

FORWARD-LOOKING STATEMENTS

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

Statements regarding:

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

- o sources and availability of liquidity;
- o the Company's anticipated level of capital expenditures for the next fiscal year;
- o the Company's ability to generate sufficient cash flow from operations to sustain operations;
- o strategic plans to improve the Company's performance in the future;
- o the Company's ability to fill its customers' scheduled backlog by February 28, 2005;
- o the Company's expectations regarding average selling prices for its products continuing to decline;
- o the Company's competitive strengths, industry reputation and the nature of its competition;
- o the Company's belief regarding the relative importance of patented technology;
- o the Company's ability to move into new markets or to develop new products;
- o the Company's belief that its ability to produce highly reliable custom hybrids in a short period of time will give it a strategic advantage in attempting to penetrate high-end commercial markets and in selling military products complementary to those currently sold;
- o the Company's belief that it will be able to improve its capability to respond quickly to customers' needs and to deliver products in a timely manner;
- o the Company's ability to implement effectively cost-cutting or downsizing measures;
- o the Company's compliance with environmental laws, orders and investigations and the future cost of such compliance;
- o implementation of the Plan of Reorganization and the Company's ability to make payments required under the Plan of Reorganization or otherwise to generate sufficient cash from operations or otherwise;
- o expectations of being released from certain environmental liabilities and the Company's ability to satisfy such liabilities;
- o the suitability and adequacy of the Company's headquarters and manufacturing facilities;
- o the effects of the SEC investigation;
- o the effects of inflation; and
- o other statements contained in this report that address activities, events of developments that the Company expects, believes or anticipates will or may occur in the future, and similar statements are forward-looking statements.

These statements are based upon assumptions and analyses made by the Company in light of current conditions, future developments and other factors the Company believes are appropriate in the circumstances, or information obtained from

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

third parties and are subject to a number of assumptions, risks and uncertainties. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results might differ materially from those suggested or projected in the forward-looking statements. Factors that may cause actual future events to differ significantly from those predicted or assumed include, but are not limited to:

- o the loss of certification or qualification of the Company's products or the inability of the Company to capitalize on such certifications and/or qualifications;
- o unexpected rapid technological change;
- o a misinterpretation of the Company's capital needs and sources and availability of liquidity;

16

- o a change in government regulations which hinders the Company's ability to perform government contracts;
- o a shift in or misinterpretation of industry trends;
- o unforeseen factors which impair or delay the development of any or all of its products;
- o inability to sustain or grow bookings and sales;
- o inability to capitalize on competitive strengths or a misinterpretation of those strengths;
- o the emergence of improved, patented technology by competitors;
- o a misinterpretation of the nature of the competition, the Company's competitive strengths or its reputation in the industry;
- o inability to respond quickly to customers' needs and to deliver products in a timely manner resulting from unforeseen circumstances;
- o inability to generate sufficient cash to sustain operations;
- o failure of price or volume recovery;
- o failure to successfully implement cost-cutting or downsizing measures, strategic plans or the insufficiency of such measures and plans;
- o changes in military or defense appropriations;
- o inability to make or renegotiate payments under the Plan of Reorganization;
- o inability to move into new market segments based on unforeseen factors;
- o unexpected impediments affecting ability to fill backlog;
- o inability to be released from environmental liabilities;
- o an increase in the expected cost of environmental compliance based on factors unknown at this time;
- o changes in law or industry regulation;

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

- o inability to sell certain properties or to obtain expected prices for such properties;
- o unexpected growth or stagnation of the business;
- o the results of the SEC investigation;
- o unforeseen changes that render the Company's headquarters and manufacturing facilities unsuitable or inadequate to meet the Company's current needs; and
- o unforeseen effects of inflation; other unforeseen activities, events and developments that may occur in the future.

RISK FACTORS

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

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

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

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

Our ability to repair and maintain the aging manufacturing equipment we own may adversely affect our ability to deliver product to our customers' requirements. We may be forced to expend significant funds in order to acquire replacement capital equipment that may not be readily available, thus resulting in manufacturing delays.

17

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.

The Company relies on its relationships with certain key suppliers for its supply of raw materials, parts and finished components that are qualified for

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

use in the end-products the Company manufactures. While the Company currently has favorable working relationships with its suppliers, it cannot be sure that these relationships will continue in the future. Additionally, the Company cannot guarantee the availability or pricing of raw materials. The price of qualified raw materials can be highly volatile due to several factors, including a general shortage of raw materials, an unexpected increase in the demand for raw materials, disruptions in the suppliers' business and competitive pressure among suppliers of raw materials to increase the price of raw materials. Suppliers may also choose, from time to time, to extend lead times or limit supplies due to a shortage in supplies. Additionally, some of the Company's key suppliers of raw materials may have the capability of manufacturing the end products themselves and may therefore cease to supply the Company with its raw materials and compete directly with the Company for the manufacture of the end-products. Any interruption in availability of these qualified raw materials may impair the Company's ability to manufacture its products on a timely and cost-effective basis. If the Company must identify alternative sources for its qualified raw materials, it would be adversely affected due to the time and process required in order for such alternative raw materials to be qualified for use in the applicable end-products. Any significant price increase in the Company's raw materials that cannot be passed on to customers or a shortage in the supply of raw materials could have a material adverse effect on the Company's business, financial condition or results of operations.

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

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

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

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

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

OUR INVENTORIES MAY BECOME OBSOLETE AND OTHER ASSETS MAY BE SUBJECT TO RISKS.

The life cycles of some of our products depend heavily upon the life cycles of the end products into which our products are designed. Products with short life cycles require us to manage closely our production and inventory levels. Inventory may also become obsolete because of adverse changes in end-market demand. We may in the future be adversely affected by obsolete or excess inventories which may result from unanticipated changes in the estimated total demand for our products or the estimated life cycles of the end products into which our products are designed. The asset values determined under Generally Accepted Accounting Principles for inventory and other assets each involve the making of material estimates by us, many of which could be based on mistaken assumptions or judgments.

ENVIRONMENTAL REGULATIONS COULD REQUIRE US TO INCUR SIGNIFICANT COSTS.

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

18

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

The semiconductor industry, and the semiconductor product markets specifically, are highly competitive. Competition is based on price, product performance, quality, turn-around time, reliability and customer service. The gross profit margins realizable in our markets can differ across regions, depending on the economic strength of end-product markets in those regions. Even in strong markets, price pressures may emerge as competitors attempt to gain more share by lowering prices. Competition in the various markets in which we participate comes from companies of various sizes, many of which are larger and have greater financial and other resources than we have and thus can better withstand adverse economic or market conditions. In addition, companies not currently in direct competition with us may introduce competing products in the future.

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

The semiconductor industry is highly cyclical. Semiconductor industry-wide sales declined significantly in 2001 and 2002. Our markets may experience other, possibly more severe and prolonged, downturns in the future. We may also experience significant changes in our operating profit margins as a result of variations in sales, changes in product mix, price competition for orders and costs associated with the introduction of new products.

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

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

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

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

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

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

During fiscal year 2004, we continued certain cost-cutting measures originally begun two years ago, and we have a plan to implement further cost-saving measures if necessary. The impact of these cost-reduction efforts on our profitability may be influenced by:

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

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

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

OUR 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.

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

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

During the fiscal year ended February 29, 2004, fifteen customers accounted for approximately 85% of our revenues. A loss of these customers, or reduced business from such customers whose business comes mainly from the US Defense Department, could have a significant adverse impact on our business and results of operations in future periods. Furthermore, due to industry consolidation, the loss of any one customer may have a greater impact than we anticipate. We cannot guarantee that we will be able to retain long-term relationships or secure renewals of short-term relationships with our more substantial customers in the future.

A SHORTAGE OF THREE-INCH SILICON WAFERS COULD RESULT IN LOST REVENUES DUE TO AN INABILITY TO BUILD OUR PRODUCTS.

Some of our products contain components manufactured in house from three-inch silicon wafers. The worldwide supply of three-inch silicon wafers is dwindling. We currently have enough wafers in inventory and on order to meet our manufacturing needs for three years. Should a shortage of three-inch silicon wafers occur, we might not be able to switch our manufacturing capabilities to another size wafer in time to meet our customer's needs, leading to lost revenues.

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

Our business exposes us to potential product liability risks that are inherent in the manufacturing and marketing of high-reliability electronic components for critical applications. No assurance can be made that our product liability insurance coverage is adequate or that present coverage will continue to be available at acceptable costs, or that a product liability claim would not materially and adversely affect our business, prospects, financial conditions or results of operations.

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

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

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

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

Item 7. FINANCIAL STATEMENTS

Index to Consolidated Financial Statements

	Page

Report of Independent Registered Public Accounting Firm	23
Consolidated Balance Sheet as of February 29, 2004	24
Consolidated Statements of Operations for the years ended February 29, 2004 and February 28, 2003	25
Consolidated Statements of Stockholders' Equity for the years ended February 29, 2004 and February 28, 2003	26
Consolidated Statements of Cash Flows for the years	

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

ended February 29, 2004 and February 28, 2003

27

Notes to Consolidated Financial Statements

28-39

22

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Solitron Devices, Inc.
West Palm Beach, Florida

We have audited the accompanying consolidated balance sheet of Solitron Devices, Inc. and Subsidiaries as of February 29, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended February 29, 2004 and February 28, 2003. These consolidated financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board Standards (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Solitron Devices, Inc. and Subsidiaries as of February 29, 2004 and the results of its operations and cash flows for the years ended February 29, 2004 and February 28, 2003, in conformity with United States generally accepted accounting principles.

Berkovits, Lago & Company, LLP
Fort Lauderdale, Florida
May 24, 2004

23

SOLITRON DEVICES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET FEBRUARY 29, 2004

ASSETS	(in thousands, except for per share amounts)
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,883
Accounts receivable, less allowance for doubtful accounts of \$1,000	988
Inventories	2,416
Prepaid expenses and other current assets	164

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

TOTAL CURRENT ASSETS	5,451
PROPERTY, PLANT AND EQUIPMENT, net	562
OTHER ASSETS	52
TOTAL ASSETS	\$ 6,065

LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of accrued environmental expenses	\$ 966
Accounts payable-Post-petition	409
Accounts payable-Pre-petition, current portion	851
Accrued expenses and other liabilities	1,189
TOTAL CURRENT LIABILITIES	3,415
LONG-TERM LIABILITIES, net of current portion	33
TOTAL LIABILITIES	3,448

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, \$.01 par value, authorized 500,000 shares, none issued	
Common stock, \$.01 par value, authorized 10,000,000 shares, 2,076,357 shares issued and outstanding	21
Additional paid-in capital	2,620
Accumulated deficit	(24)
TOTAL STOCKHOLDERS' EQUITY	2,617
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 6,065
=====	

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

24

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDING FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

	2004	2003
	----	----
	(in thousands, except for per share amounts)	
Net sales	\$ 7,690	\$ 7,347
Cost of sales	6,576	5,887
Gross profit	1,114	1,460
Selling, general and administrative expenses	1,117	1,092

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Operating (loss) income	(3)	368
Other income (expenses):		
Disposal of non-operating facility	0	(175)
Interest expense	0	(18)
Interest expense on unsecured creditors claim	(10)	(26)
Interest income	18	29
Environmental expenses reserve	0	113
Other, net	159	3
Net income	\$ 164	\$ 294

INCOME PER SHARE OF COMMON STOCK:

Basic			
Net Income per share	\$ 0.08	\$ 0.14	
Diluted			
Net Income per share	\$ 0.08	\$ 0.14	
Weighted Average shares outstanding-Basic	2,076,357	2,070,821	
Weighted Average shares outstanding-Diluted	2,076,357	2,070,821	

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

25

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended February 29, 2004 and FEBRUARY 28, 2003

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	
	(in thousands, except for number of shares)				
Balance, February 28, 2002	2,070,821	\$ 21	\$ 2,617	\$ (482)	\$
Net Income	--	--	--	294	--
Balance, February 28, 2003	2,070,821	21	2,617	(188)	
Fractional shares paid Cash-in-Lieu	(464)				
New shares issued due to exercise of stock options	6,000		3		
Net Income	--	--	--	164	--

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Balance, February 29, 2004	2,076,357	\$	21	\$	2,620	\$	(24)	\$
	=====		=====		=====		=====	=====

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

26

SOLITRON DEVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 29, 2004 AND FEBRUARY 28, 2003

	2004	2003
	----	----
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 164	\$ 294
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	185	176
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	63	(87)
Inventories	454	(177)
Prepaid expenses and other current assets	(24)	(4)
Increase (decrease) in:		
Accounts payable	(140)	140
Accounts payable-pre-petition	51	149
Accrued expenses and Other liabilities	69	(172)
Accrued environmental expenses	120	108
Other long-term liabilities	(331)	(47)
	-----	-----
Total adjustments	447	86
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	611	380
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES;		
Additions to property, plant and equipment	(179)	(267)
	-----	-----
NET CASH (USED IN) INVESTING ACTIVITIES	(179)	(267)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES;		
Proceeds from conversion of stock options	3	0
	-----	-----
NET CASH FROM FINANCING ACTIVITIES	3	0
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	435	113
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	1,448	1,335

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,883	\$ 1,448
	=====	=====

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

27

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

1. Summary of Significant Accounting Policies

Nature of 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.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Accounts receivable

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts has been established. The allowance amount was \$1,000 for 2004.

Principal Business Activity

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

Inventories

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

Property, Plant and Equipment

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and trade receivables. The Company places its cash with high credit quality institutions. At times such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in such account and believes that it is not exposed to any significant credit risk on the account. As of February 29, 2004, approximately \$1,700,000 is subject to this risk. With respect to the trade receivables, most of the Company's products are custom made pursuant to the contracts whose end products are sold to the United States Government. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for potential credit losses. Actual losses and allowances have historically been within Management's expectations.

Revenue Recognition

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

28

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

1. Summary of Significant Accounting Policies (continued)

Income Taxes

Income taxes are accounted for under the asset and liability method of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance.

Computation of Earnings per Share

Basic earnings per common share are computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options and warrants to purchase common stock. In the fiscal years ended February 29, 2004 and February 28, 2003 diluted earnings per common share were not computed because the effect of the incremental shares would be anti-dilutive. The incremental shares were computed based on stock options outstanding, using the treasury stock method.

Stock Based Compensation

The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" in 1997. In December 2002, The FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, and amendment of FASB Statement No. 123 (SFAS No. 148)." This

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

statement amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and disclosure requires that the Company continue to account for stock-based employee compensation under APB No. 25, "Accounting for Stock Issued Employees" with pro forma disclosure of net income and earnings per share as if the fair value method prescribed by SFAS No. 123 had been applied in accordance with SFAS 148.

Financial Statement Estimates

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

New Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements. Also, Management believes that accounting standards adopted during fiscal year 2004 are not applicable to the Company.

29

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

2. Going Concern and Petition in Bankruptcy

The Company's consolidated financial statements as of February 29, 2004 are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities as they become due. Although the Company has projected that it will be able to generate sufficient funds to support its ongoing operations, it has significant obligations arising from settlements in connection with its bankruptcy necessitating it to make substantial cash payments, which cannot be supported, by the current level of operations. The Company must be able to obtain forbearance or be able to renegotiate its bankruptcy related required payments to unsecured creditors, the United States Environmental Protection Agency ("USEPA"), the Florida Department of Environmental Protection ("FDEP"), and certain taxing authorities or raise sufficient cash in order to pay these obligations as currently due, in order to remain a going concern. The Company continues to negotiate with its unsecured creditors, the USEPA, the FDEP, and taxing authorities in an attempt to arrive at reduced payment schedules. The Company has a contingency plan to reduce its size and thereby reduce its cost of operations within certain limitations. However, no assurance can be made that the Company can reach a suitable agreement with the unsecured creditors or taxing authorities or obtain additional sources of capital and/or cash or that the Company can generate sufficient cash to meet its obligations over the next year. The financial statements do not include any adjustments to reflect the possible future effect on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Petition in Bankruptcy

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

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

(a) The Company is required to make quarterly payments to holders of unsecured claims until they receive 35 percent of their pre-petition claims. At February 29, 2004 the Company is currently scheduled to pay approximately \$1,874,000 to holders of allowed unsecured claims in quarterly installments of approximately \$62,000. As of February 29, 2004, the present value of this amount, \$864,000, is accrued as a pre-petition liability with imputed interest recognized in the Statement of Operations.

(b) Beginning on the later of (i) the payment of all administrative claims and all unsecured claims, but not later than 18 months after the Effective Date (August 30, 1993) and (ii) the date the Company's net after tax income exceeds \$500,000, the Company will pay (on an annual basis) each of (x) the holders of unsecured claims (pro rata) and (y) Vector Trading and Holding Corporation ("Vector"), 5% of its net after tax income in excess of \$500,000 until the tenth anniversary of the Effective Date, up to a maximum aggregate of \$1,500,000 of such payments to the holders of unsecured claims (pro rata) and up to a maximum aggregate of \$1,500,000 of such payments to Vector.

30

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

2. Going Concern and Petition in Bankruptcy (continued)

(c) Under the Plan, the Company is required to remediate its former non-operating facility located in Port Salerno and its former facility located in Riviera Beach, Florida. The Plan contemplated that monies to fund the remediation will be made available from the proceeds of the sale or lease of the properties, to the extent that the Company is successful in its efforts to sell or lease such properties. The Riviera Beach Property was sold on October 12, 1999 by the Company. Under the terms of the sale, the United States Environment Protection Agency ("USEPA") received the net proceeds of \$419,000. USEPA also received approximately \$19,000 from the Riviera Beach environmental escrowed monies to defray its cleanup costs. The Port Salerno (formerly occupied by Solitron Microwave) property was sold on March 17, 2003. Under the terms of the sale, the USEPA received \$153,155 and Martin County received on behalf of FDEP \$278,148 (the net proceeds). Further, pursuant to the Plan, a purchaser of this facility would not be liable for existing environmental problems under certain conditions. In connection with facilitating the remediation of the property, the Company will also, to the extent the proceeds from the sale or lease of these properties are not sufficient to pay for the remediation, be required to escrow the following amounts on a monthly basis beginning on September 30, 1995: (i) year 1 - \$5,000 per month; (ii) year 2 - \$7,500 per month; (iii) year 3 - \$10,000 per month; and (iv) \$10,000 per month thereafter until remediation is completed. The Company has notified FDEP of its inability to pay pursuant to

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

this schedule and is making payments at the rate of \$1,000 per month. As of February 29, 2004, the Company has deposited \$90,000 into the escrow accounts.

(d) The Company has paid all of the allowed administrative claims and allowed wage claims since August 1993.

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

Party-In-Interest	Common Stock
Vector	25%
Unsecured Creditors	40%
Company's President	10%
Pre-Petition Stockholders	20%
Reserved for future issuance under an employee stock incentive plan to be issued based upon the terms and conditions of the plan at the discretion of the Board of Directors	5%

	100%
	=====

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

31

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

3. Inventories

As of February 29, 2004, inventories consist of the following:

Raw Materials	\$1,411,788
Work-In-Process	1,242,952
Finished Goods	327,204

Gross Inventory	2,981,944
Reserve	(566,423)

Net Inventory	\$2,415,521
	=====

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

4. Property, Plant and Equipment

As of February 29, 2004, property, plant, and equipment consist of the following:

		Estimated Useful Life -----
Leasehold Improvements	\$ 777,000	The remaining lease term is 7 years
Machinery and Equipment	1,034,000	
	----- 1,811,000	
Less Accumulated Depreciation And Amortization	1,249,000	
	----- \$ 562,000 =====	

Depreciation and amortization expense was \$185,000 and \$176,000 for 2004 and 2003, respectively.

5. Accrued Expenses

As of February 29, 2004 accrued expenses and other liabilities consist of the following:

Payroll and related employee benefits	\$ 316,000
Property taxes	6,000
Other liabilities	64,000
Interest Payable	803,000
	----- \$1,189,000 =====

6. Other Long-Term Liabilities

As of February 29, 2004, other long-term liabilities consist of the following pre-petition items:

Accrued Environmental Expenses	\$ 20,000
Accounts Payable-Pre-petition	13,000
	----- \$ 33,000 =====

6. Other Long-Term Liabilities (continued)

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

Year Ending

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

February 28

2005	\$33,000 =====
------	-------------------

Imputed interest expense for fiscal years ended February 29, 2004 and February 28, 2003 amounted to \$10,000 and \$26,000 relating to accounts payable - pre-petition.

7. Income Taxes

At February 29, 2004, the Company has net operating loss carryforwards of approximately \$15,487,000 that expire through 2022. Such net operating losses are available to offset future taxable income, if any. As the utilization of such net operating losses for tax purposes is not assured, the deferred tax asset has been fully reserved through the recording of a 100% valuation allowance. Should a cumulative change in the ownership of more than 50% occur within a three-year period, there could be an annual limitation on the use of the net operating loss carryforward.

Deferred tax assets are comprised of the following at February 29, 2004:

Loss carryforwards	\$ 5,266,000
Allowance for doubtful accounts	1,000
Inventory Allowance	3,369,000

Gross deferred tax asset	8,636,000
Deferred tax asset valuation allowance	(8,636,000)

Net deferred tax	\$ -- =====

A reconciliation of the provision for income taxes to the amount calculated using the statutory federal rate (34%) for fiscal years ended February 29, 2004 and February 28, 2003 is as follows:

	2004 ----	2003 ----
Income Tax Provision at Federal Statutory Rates	\$ 47,000	\$ 103,000
State Taxes	9,000	19,000
Utilization of Net Operating Loss Carryforward	(56,000)	(122,000)
	-----	-----
Income Tax Provision	\$ --	\$ --

8. Stock Options

Pursuant to agreements dated October 20, 1992 and August 20, 1993, the Company's President was granted options, which entitle him to purchase 8.5% of the common stock of the Company (175,636 shares at February 28, 1999, subject to adjustment as defined in the Agreement) for an aggregate exercise price of \$21,955. These

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

options have now expired.

The Company inadvertently understated the number of stock options granted in fiscal year 2001 by 38,751. The revised number of options granted are reflected in the Notes to Consolidated Financial Statements as of February 29, 2004.

On May 19, 2003 the Board of Directors granted Stock options to certain key employees. The options, which became vested on May 18, 2004, were for a total number of 45,500 shares and the exercise price was fixed at \$0.450 per share, which was the price on the OTCBB at the time of the grant. The options are exercisable through May 19, 2013. On June 17, 2002 the Board of Directors granted Stock options to certain key employees. The options, which became vested on June 18, 2003, were for a total number of 40,000 shares and the exercise price was fixed at \$0.200 per share, which was the price on the OTCBB at the time of the grant. The options are exercisable through June 17, 2012. In December 2000 another grant equal to 10% of the outstanding shares (245,624) was made to Mr. Saraf at the exercisable price of \$0.400 per share. Fifty percent (50%) of the total number of shares is immediately exercisable and the other 50% vests in five equal installments over the following five years.

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

	Year Ended		Year Ended	
	February 29, 2004		February 28, 2003	
	As Reported	Pro Forma	As Reported	Pro Forma
	-----	-----	-----	-----
Net income	\$164,000	\$144,000 (1)	\$294,000	\$279,000 (1)
Basic income per common share	\$ 0.08	\$ 0.07	\$ 0.14	\$ 0.13
Diluted income per common share	\$ 0.08	\$ 0.07	\$ 0.14	\$ 0.13

(1) The total stock-based employee compensation expense for the years ended February 29, 2004 and February 28, 2003, \$20,000 and \$15,000, respectively, determined under fair value based method for all awards, net of related tax effects, has been deducted from the pro forma net income.

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

The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions applied to grants in fiscal year 2004:

	2003

Dividend Yields	0.0%
Expected Volatility	184.0%
Risk-free Interest Rates	5.0%
Expected Life (in years)	9.0

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

8. Stock Options (continued)

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

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

	Shares -----	Average Price -----
Balance, February 28, 2003	487,209	\$ 0.343
Stock options never recorded for Fiscal year 2001 stock option grant	38,751	\$ 0.400
Granted	45,500	\$ 0.450
Expired or Cancelled	(179,386)	\$ 0.135
Exercised	(6,000)	\$ 0.423
	-----	-----
Balance, February 29, 2004	386,074	\$ 0.457
	=====	=====

During the year ended February 29, 2004 the Company awarded options for 45,500 shares at a price of \$0.45. The weighted average fair value of options granted during the year ended February 29, 2004 was \$0.45.

The following table summarizes information about stock options outstanding and exercisable at February 29, 2004

Range of Exercise Prices -----	Options Outstanding			Exercisable Options	
	Number Outstanding Shares -----	Remaining Contractual Life ----	Weighted Average Exercise Price -----	Number -----	Exercise Prices -----
\$0.156 \$0.156	4,000	3 years	\$0.156	4,000	\$0.156
\$0.200 \$0.200	36,400	8 years	\$0.200	36,400	\$0.200
\$0.400 \$0.400	245,624	7 years	\$0.400	196,499	\$0.400
\$0.450 \$0.450	44,500	10 years	\$0.450	44,500	\$0.450
\$0.625 \$0.625	16,500	5 years	\$0.625	18,000	\$0.625
\$0.670 \$0.670	24,750	6 years	\$0.670	26,000	\$0.670
\$2.500 \$2.500	14,300	1 years	\$2.500	14,300	\$2.500
	-----			-----	
	386,074			336,949	
	=====			=====	

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

9. Employee Benefit Plans

The Company has a 401K and Profit Sharing Plan (the "Profit Sharing Plan") in which substantially all employees may participate after three months of service. Contributions to the Profit Sharing Plan by participants are voluntary. The Company may match participant's contributions up to 25% of 4% of each participant's annual compensation. In addition, the Company may make additional contributions at its discretion. The Company did not contribute to the Profit Sharing Plan during the fiscal years ended February 29, 2004 and February 28, 2003.

35

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

10. Export Sales and Major Customers

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

	Year Ended February 29, 2004 ----	Year Ended February 28, 2003 ----
Export sales:		
Europe	\$ 412,000	\$ 401,000
Canada and Latin America	125,000	57,000
Far East and Middle East	119,000	280,000
United States	7,034,000	6,609,000
	-----	-----
	\$ 7,690,000	\$ 7,347,000
	=====	=====

Sales to the Company's top two customers accounted for 52% of net sales for the year ended February 29, 2004 as compared with 59% of the Company's net sales for the year ended February 28, 2003. Sales to Raytheon Company accounted for approximately 41% of net sales for the year ended February 29, 2004 and 45% for the year ended February 28, 2003. During the fiscal year ended February 29, 2004, the US Government represented approximately 11% of net sales as compared to 9% for the fiscal year ended February 28, 2003

11. Commitments and Contingencies

Employment Agreement

In December 2000, the Company entered into a five-year employment agreement with its President. This agreement provides, among other things, for annual compensation of \$240,000 and a bonus pursuant to a formula. The agreement stipulates that the President shall be entitled to a bonus equal to fifteen percent (15%) of pre-tax income in excess of Two Hundred Fifty Thousand Dollars (\$250,000). For purposes of the agreement, "pre-tax income" shall mean net income before taxes, excluding (i) all extraordinary gains or losses, (ii) gains resulting from debt forgiven associated with the buyout of unsecured creditors, and (iii) any bonuses paid to employees. The bonus payable hereunder shall be paid within ninety (90) days after the end of the fiscal year. The President of the Company voluntarily took a 30% reduction in compensation at the time that

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

salary reductions, ranging from 6% to 12%, went into effect for all of the employees of the Company during fiscal year 2002. As of June 2, 2003, 66% of the reduction in salary was restored. As of January 1, 2004, the President's salary was restored to 94% of the contracted value.

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

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

36

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

11. Commitments and Contingencies (continued)

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

No bonus was accrued for the President for the fiscal year ending February 29, 2004. A bonus of \$18,219 was accrued for the President for the fiscal year ended February 29, 2003.

Environmental Compliance:

The Company is currently engaged in negotiations with the United States Environmental Protection Agency ("USEPA") to resolve the Company's alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida; Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Disposal Superfund Site, Santa Barbara County, California; and Solitron Devices Site, Riviera Beach, Florida. USEPA contends that the Company is liable for a share of past and future costs incurred by USEPA in connection with the investigation and remediation of the sites. At a meeting with USEPA on March 23, 2001, USEPA contended that the Company's alleged share of liability at the four (4) sites totals approximately \$7.65 million, which USEPA broke down on a site by site basis as follows: Solitron Microwave, Port Salerno - \$3.8 million; Petroleum Products - \$150,000; Casmalia Disposal - \$2.7 million; and Solitron Devices, Riviera Beach - \$1 million.

In addition to the claims asserted by USEPA against the Company at the Casmalia Disposal Superfund Site, claims have been asserted against the Company by a group of alleged responsible parties formed at the site for all past and future cleanup expenses incurred or to be incurred by the respective group. During the negotiations with USEPA to resolve the Company's alleged liability at all sites, the Company was advised by USEPA that a settlement with USEPA would most likely resolve the claims of the groups of alleged responsible parties formed at the Casmalia Disposal Superfund Site. Preliminary communications with attorneys

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

representing the respective groups support USEPA's representations in this regard.

The Company contends that the claims of USEPA and the Casmalia private party group referenced above were discharged in bankruptcy pursuant to the Bankruptcy Court's Order Confirming Solitron's Fourth Amended Plan of Reorganization, entered in August 1993. Nevertheless, the Company is negotiating with USEPA to settle its outstanding liability at all sites based on an ability to pay ("ATP") determination.

Following a settlement conference on October 24, 2003, the Company received a final ATP Multi-Site Settlement Agreement from EPA on January 23, 2004. The substantial provisions of the Agreement obligate the Company to pay to EPA the sum of \$74,000 over two years, in equal quarterly payments, plus interest. In addition, the Company is obligated to pay to EPA the sum of \$10,000 or 5% of Solitron's net after-tax income over the first \$500,000, if any, whichever is greater, for years 3-7 following the effective date of the Agreement. The Company signed the Agreement and returned it to EPA for execution on January 26, 2004. After receipt of the signed Agreement, EPA notified the Company that additional edits to the Agreement may be necessary. The Company expects to complete negotiations with EPA in 2004. Once the agreement becomes effective, it is anticipated that EPA will recommend to the PRP group at the Casmalia Disposal Superfund Site that the group release the Company from further liability at the site upon the Company's compliance with the Agreement.

On August 7, 2002, the Company received a Request for Information from the State of New York Department of Environmental Conservation ("NYDEC"), seeking information on whether the Company had disposed of certain wastes at the Clarkstown Landfill site located in the Town of Clarkstown, Rockland County, New York. By letter dated August 29, 2002, the Company responded to the Request for Information and advised NYDEC that the Company's former Tappan, New York facility closed in the mid-1980s, prior to the initiation of the Company's bankruptcy proceedings described above. The Company contends that, to the extent that NYDEC has a claim against the Company as a result of the Company's alleged disposal of wastes at the Clarkstown landfill prior to the closing of the Company's former Tappan facility in the mid-1980s, the claim was discharged in bankruptcy as a result of the Bankruptcy Court's August 1993 Order referenced above. The Company entered into a Tolling Agreement with the State of New York

37

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

11. Commitments and Contingencies (continued)

in August 2003, which provides for the tolling of applicable statutes of limitation through the earlier of August 23, 2004 or the date the State institutes a suit against Solitron, for any claims associated with the Clarkstown Landfill site. It is not known at this time whether the State of New York will pursue a claim against the Company in connection with the Clarkstown Landfill site.

Operating Leases

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Fiscal Year Ending February 28/29	Amount
-----	-----
2005	402,000
2006	414,000
2007	427,000
2008	439,000
2009	452,000
Thereafter	946,000
Total	----- \$3,080,000 =====

Total rent expense was \$408,000 for the year ended February 29, 2004 as compared with \$415,000 for the year ended February 28, 2003. These figures include rental of storage space, which is made on a month-to-month basis.

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

Legal Proceedings

The Company's former controller has filed a "Whistleblower" claim with the U.S. Department of Labor, Occupational Safety & Health Administration (OSHA) pursuant to Section 806 of the Sarbanes-Oxley Act of 2002, codified at 185 U.S.C. sec. 1514A, which is also known as the "Corporate and Criminal Fraud Accountability Act of 2002". The matter is being handled as an administrative proceeding before OSHA at this point. At the present time, OSHA is still conducting an investigation of the claim, and OSHA has not yet issued its findings. The claim is being vigorously contested. At this early state, it is difficult to predict the eventual outcome, but an unfavorable outcome before this administrative agency is reasonably possible. Should the claimant prevail on his claim, the damages available to him include back pay, front pay, compensation for loss of benefits, non-economic damages, attorneys' fees and costs. The Company is being defended in this action by its liability insurance carrier, under a reservation of rights.

38

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

11. Commitments and Contingencies (continued)

The Southeast Regional Office of the Securities and Exchange Commission is conducting a formal investigation concerning the Company. To date, the SEC investigation has focused on the propriety of the Company's past accounting. The Company has produced documents to the SEC, and the SEC has taken sworn testimony of several individuals. As of this date, the SEC has not requested a "Wells" submission from the Company, and has not indicated an intention to file any

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

civil or administrative complaint against the Company. An unfavorable outcome of the SEC investigation may have a material adverse effect on the Company's financial condition or results of operations. At this time, we are unable to conclude that the likelihood of an adverse outcome is probable or remote. We therefore are unable to express an opinion as to the likelihood of an unfavorable outcome. We also are unable to express an opinion as to an amount or range of potential loss.

12. Other Income

During the year ended February 29, 2004, the Company recognized other income, which totaled approximately \$109,000 (\$.05/share). This other income was the result of settlement of a debt obligation to an unsecured creditor which the Company bought at a discount. The Company settled a debt obligation of \$114,000 and recognized \$109,000 of other income.

13. Sale of Non-Operating Facility

On March 17, 2003 the Company sold its non-operating plant facilities located in Port Salerno, Florida. The Port Salerno property consisted of a 42,000 square foot building and 23 acres of undeveloped land. The property was carried at its estimated fair market value, net of disposal costs, per the Company's accounting policy. Since the particulars of the sale were probable and reasonably estimable at the end of fiscal year 2003, the February 28, 2003 financial statements were adjusted to reflect the sale of the Port Salerno property.

The transaction is summarized as follows from the settlement statement:

Gross Sales Price of Property	\$801,691
Less Disbursements Paid at Closing:	
USEPA	(153,155)
Martin County on Behalf of FDEP	(278,148)
Real Estate Taxes	(287,401)
Sales Commission	(48,000)
Attorney's Fees	(23,309)
State Tax/Stamps	(5,600)
Title and Other Fees	(6,078)

Net	\$0
	=====

14. Subsequent Event

On May 17, 2004, the Board of Directors granted stock options to certain key employees. The options, which will vest on May 16, 2005, were for a total of 47,500 shares and the exercise price was fixed at \$1.05 per share (the closing price on the Over-The-Counter Bulletin Board at the time of the grant). On the same date, the Board of Directors awarded Mr. Saraf 175,636 shares, which are fully vested, to replace options that expired during fiscal year 2004. The exercise price was fixed at \$1.05 per share (the closing price on the Over-The-Counter Bulletin Board at the time of the grant).

39

SOLITRON DEVICES, INC. AND SUBSIDIARIES

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

None

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

ITEM 8A. CONTROLS AND PROCEDURES

Based on the evaluation of the Company's disclosure controls and procedures as of February 29, 2004, Shevach Saraf, Chairman, President, Chief Executive Officer, Treasurer and Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified by the Securities and Exchange Commission rules and forms.

There were no significant changes in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

40

PART III

ITEM 9. DIRECTORS , EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

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

Name	Age	Position with Solitron	Year First Became Director	Term As Director Expires(1)
----	---	-----	-----	-----
Shevach Saraf	61	Chairman of the Board, Chief Executive Officer, President and Treasurer	1992	Expired
Dr. Jacob A. Davis	67	Director	1996	Expired
Mr. Joseph Schlig	76	Director	1996	Expired

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Mr. Shevach Saraf has been President of the Company since November 1992, Chief Executive Officer of the Company since December 1992 and Chairman of the Board since September 1993. He has 42 years experience in operations and engineering management with electronics and electromechanical manufacturing companies.

Before joining Solitron in 1992, Mr. Saraf was Vice President of Operations and a member of the Board of Directors of Image Graphics, Inc., a military and commercial electron beam recorder manufacturer based in Shelton, CT. As head of the Company's engineering, manufacturing materials and field service operations, he turned around the firm's chronic cost and schedule overruns to on-schedule and better-than-budget performance. Earlier, he was President of Value Adding Services, a management consulting firm in Cheshire, CT. The Company provided consulting and turnaround services to electronics and electromechanical manufacturing companies with particular emphasis on operations. From 1982-1987, Mr. Saraf was Vice President of operations for Harmer Simmons Power Supplies, Inc., a power supplies manufacturer in Seymour, CT. He founded and directed all aspects of the Company's startup and growth, achieving \$12 million in annual sales and a staff of 180 employees. Mr. Saraf also held executive positions with Photofabrication Technology, Inc. and Measurements Group of Vishay Intertechnology, Inc.

41

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

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

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

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

Dr. Davis is the Chairman of the Compensation Committee and a member of the Audit Committee.

Mr. Joseph Schlig was elected a Director of the Company on August 26, 1996. Since 1985, he has been Managing Director of Fairhaven Associates, a professional consulting firm supporting small and medium size businesses in

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

strategic planning; financial, marketing and operations management and organizational development. From 1995 to 1997, Mr. Schlig also served as Chief Financial Officer of Industrial Technologies, Inc. For the prior five years, Mr. Schlig was a business consultant to private companies and to the State of Connecticut Department of Economic Development. Prior to 1985, Mr. Schlig had many years of business experience including Director of Marketing, Latin America for ITT and Director of International Operations for Revlon. Mr. Schlig has also operated several small/medium size companies in both the public and private sectors. He also served as a director of the Trumbull Technology Foundation, and a Director of the MIT Enterprise Forum of Connecticut and currently serves as a director of the Bridgeport Economic Development Corporation. He is an alternate member of the Board of Finance of the Town of Trumbull, Connecticut. Mr. Schlig has an engineering degree from the Stevens Institute of Technology and an MBA from the Harvard Business School where he was a Baker Scholar. Mr. Schlig is the Chairman of the Audit Committee and a member of the Compensation Committee.

Audit Committee

The Company's Board of Directors has an Audit Committee. The Audit Committee consists of Messrs. Davis and Schlig (Chairman). The Audit Committee is composed of independent directors. The Company's Audit Committee generally has responsibility for appointing, overseeing and determining the compensation of our independent certified public accountants, reviewing the plan and scope of the independent certified public accountants' audit, reviewing our audit and control functions, approving all non-audit services provided by our independent certified public accountants and reporting to our full Board of Directors regarding all of the foregoing. Additionally, our Audit Committee provides our Board of Directors with such additional information and materials as it may deem necessary to make our Board of Directors aware of significant financial matters that require its attention. The Company has adopted an Audit Committee Charter, a copy of which is published on the Company's web site, www.solitrondevices.com on the Investor Relations page. The Audit Committee "financial expert" is Mr. Joseph Schlig.

The Company has adopted a Code of Ethics for Senior Financial Officers, pursuant to the Sarbanes-Oxley Act of 2002. The Code of Ethics is published on the Company's web site, www.solitrondevices.com on the Investor Relations page.

42

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and executive officers of the Company and ten percent stockholders of the Company to file initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company with the Securities and Exchange Commission. Directors, executive officers, and ten percent stockholders are required to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations that no other reports were required during the year ended February 29, 2004, all Section 16(a) filing requirements applicable to directors and executive officers of the Company and ten percent stockholders of the Company were complied with, except that Messrs. David and Schlig inadvertently failed to report one transaction.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

The following table provides certain summary information concerning compensation paid by the Company, to or on behalf of the Company's Chief Executive Officer for the fiscal years ended February 29, 2004 and February 28, 2003 and 2002. The Company has no other named executive officers.

Name and Principal Position	Annual Compensation			
	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation(\$)
Shevach Saraf	2004	205,338	-0-	21,814 (1)
Chairman of the Board,	2003	169,194	18,219	15,800 (2)
Chief Executive Officer, President, Chief Financial Officer and Treasurer	2002	188,030	-0-	24,352 (3)

(1) Life, Disability, & Medical Insurances plus personal car expenses and legal fees

(2) Life, Disability, & Medical Insurances plus personal car expenses

(3) Life, Disability, & Medical Insurances plus personal car expenses and legal fees

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE
Shevach Saraf	0	-	-	-

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain summary information covering unexercised options to purchase the Company's Common Stock as of February 29, 2004 held by the Company's Chief Executive Officer. The Company's Chief Executive Officer did not exercise any stock options during the fiscal year ended February 29, 2004.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#)		EX
			EXERCISABLE	UNEXERCISABLE	
Shevach Saraf	-0-	-	196,499	49,125	\$1

Director Compensation

Each director who is not employed by the Company receives \$1,500 for each meeting of the Board he attends and \$250 for each committee meeting he attends

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

on a date on which no meeting of the Board is held. In addition, all out-of-pocket expenses incurred by a director in attending Board or committee meetings are reimbursed by the Company.

Total fees paid to all directors for attendance at Board and committee meetings amounted to \$13,000 for the fiscal year ended February 29, 2004.

Employment Agreement

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

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

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

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

The President of the Company voluntarily took a 30% reduction in compensation at the time that salary reductions, ranging from 6% to 12%, went into effect for all of the employees of the Company. As of June 2, 2003, 66% of the reduction in salary was restored. As of January 1, 2004, the President's salary was restored to 94% of the contracted value.

The President of the Company may also participate in the Company's 1987 Stock Option Plan, the Company's deferred Compensation Plan and the Company's Employee 401-K and Profit Sharing Plan (the "Profit Sharing Plan"). During the fiscal year ended February 29, 2004, no amounts were deferred by executive officers under the Company's deferred Compensation Plan and the Company did not match any employee contributions to the Profit Sharing Plan.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of February 29, 2004 by (i) all directors, (ii) the Chief Executive Officer, (iii) all officers and directors of the Company as a group, and (iv) each person known by the Company to beneficially own in excess of 5% of the Company's outstanding Common Stock.

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

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

44

Name and Address	Number of Shares Beneficially Owned (1)	Percentage of Outstanding Shares (1)
Shevach Saraf 3301 Electronics Way West Palm Beach, FL 33407	466,779 (2)	22.48%
Dr. Jacob Davis 370 Franklyn Avenue Indialantic, FL 32903	21,000 (2)	*
Joseph Schlig 129 Mayfield Drive Trumbull, CT 06611	21,000 (2)	*
All Executive Officers and Directors as a Group (3 persons)	508,779 (2)	24.50%
John Stayduhar Revocable Trust c/o Boyes & Farina 1001 Forum Place, Suite 900 West Palm Beach, FL 33401	427,848	20.61%
Bruce Paul Hampton Road Purchase, NY 10577	181,500	8.74%

* Less than 2%

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

(2) Includes shares that may be acquired upon exercise of options that are exercisable within sixty (60) days in the following amounts: Mr. Saraf - 196,499 shares; Mr. Schlig - 21,000 shares; Mr. Davis - 21,000 shares.

45

NUMBER OF SECURITIES TO BE WEIGHTED-AVERAGE

NUMBER OF
AVAILABLE

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

PLAN CATEGORY	ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	UNDER EQUI (EXCLUDING I
	(a)	(b)	
Equity compensation plans approved by security holders	0	-	
Equity compensation plans not approved by security holders	386,074	\$0.457	
Total	386,074	\$0.457	

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

46

ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(A) EXHIBITS

- 2.1 Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
- 2.2 Debtors' First Modification of Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
- 2.3 Order Confirming Debtors' Fourth Amended Plan of Reorganization of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
- 2.4 Consent Final Judgment of the Company (incorporated by reference to the Company's Form 8-K, dated September 3, 1993, as amended by the Company's Form 8-K/A, dated October 12, 1993).
- 3.1 Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 3.2 Bylaws of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 4.1 Rights Agreement dated as of May 31, 2001, between Solitron Devices, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to the Company's current report on Form 8-K filed on June 20, 2001).
- 10.1 1987 Incentive Stock Option Plan (incorporated by reference to the Company's Form 10-K for the years ended February 28, 1994 and February 28, 1995).

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

- 10.2 Purchase Agreement, dated October 5, 1992, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation, along with and as amended by: (i) Amendment Number One to Purchase Agreement, dated October 28, 1992, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation; (ii) Order, dated December 23, 1992, Authorizing the Sale of Certain of the Debtors' Assets to Vector Trading and Holding Corporation; (iii) Amendment Number Two to Purchase Agreement. dated February 28, 1993, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and Vector Trading and Holding Corporation; and (iv) Order, dated March 4, 1993, Granting Vector Trading and Holding Corporation's Motion for Entry of Amended Order Authorizing Sale of Certain of the Debtors' Assets (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 10.3 Shared Services and Equipment Agreement, dated February 28, 1993, by and among Solitron Devices, Inc., Solitron Specialty Products, Inc. (f/k/a Solitron Microwave, Inc.) and S/V Microwave (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 10.4 Commercial Lease Agreement, dated January 1, 1992, between William C. Clark, as Trustee, and Solitron Devices, Inc. (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 10.5 Reduction in Space and Rent Agreement dated November 1, 2001 between Solitron Devices, Inc. and Technology Place, Inc.

47

- 10.6 Employment Agreement, dated December 1, 2000, between Solitron Devices, Inc. and Shevach Saraf (incorporated by reference to the Company's Form 10-K for the year ended February 28, 2001)
- 21* List of Subsidiaries of the Company.
- 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.
- (B) REPORTS ON FORM 8-K

None

* Filed herewith

48

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed to the Company for the years ended February 28, 2003 and February 29, 2004, by its principal accounting firm, Berkovits, Lago & Company LLP ("BL&C"), are as follows:

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Audit Fees: The aggregate fees for professional services rendered by BL&C in connection with (i) the audit of our annual financial statements (Form 10-KSB), and (ii) reviews of our quarterly financial statements (Form 10-QSB) for the years ended February 28, 2003 and February 29, 2004, were approximately \$28,000 and \$49,000 respectively.

Audit Related Fees: The aggregate fees for professional services rendered by BL&C for audit-related services in connection with special procedures for the year ended February 28, 2003 and February 29, 2004, were approximately \$0 and \$26,252 respectively.

Tax Fees: The aggregate fees for professional services rendered by BL&C for tax compliance, tax advice and tax planning for the years ended February 28, 2003 and February 29, 2004 were approximately \$3,000 and \$3,000 respectively.

All Other Fees: There were no other fees paid for professional services that were not included in audit fees, audit-related fees and tax fees for the years ended February 28, 2003 and February 29, 2004.

PRE-APPROVAL POLICIES AND PROCEDURES FOR AUDIT AND PERMITTED NON-AUDIT SERVICES.

The Audit Committee has a policy of considering and, if deemed appropriate, approving, on a case by case basis, any audit or permitted non-audit service proposed to be performed by BL&C in advance of the performance of such service. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has not implemented a policy or procedure which delegates the authority to approve, or pre-approve, audit or permitted non-audit services to be performed by BL&C. In connection with making any pre-approval decision, the Audit Committee must consider whether the provision of such permitted non-audit services by BL&C is consistent with maintaining BL&C's status as our independent auditors.

Consistent with these policies and procedures, the Audit Committee approved all of the services rendered by BL&C during the year ended February 29, 2004, as described above.

49

SIGNATURES

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

SOLITRON DEVICES, INC.

/s/ Shevach Saraf

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

Date: June 16, 2004

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

Edgar Filing: SOLITRON DEVICES INC - Form 10KSB

Signature -----	Title -----	Date ----
/s/ Shevach Saraf ----- Shevach Saraf	Chairman of the Board, President, Chief Executive Officer, Treasurer and Chief Financial Officer.	June 16, 2004
/s/ Jacob Davis ----- Jacob Davis	Director	June 16, 2004
/s/ Joseph Schlig ----- Joseph Schlig	Director	June 16, 2004

50

EXHIBIT INDEX

EXHIBIT -----	DESCRIPTION -----
21*	List of Subsidiaries of the Company
31*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

51