SOLITRON DEVICES INC
Form 10-Q
October 12, 2010

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended August 31, 2010

or

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

For the transition period from _______ to _______

Commission File No. 1-4978

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

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of September 30, 2010 was 2,263,775.

SOLITRON DEVICES, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOLITRON DEVICES, INC.
CONDENSED BALANCE SHEETS
AS OF AUGUST 31, 2010 AND FEBRUARY 28, 2010
(Unaudited)

	Aug 31, 2010	Feb 28, 2010
	(in thousands, except for shares)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 468	$ 400
Treasury bills	5,853	5,601
Accounts receivable, less allowance for doubtful accounts of $2	855	685
Inventories, net (Note 5)	2,952	2,809
Prepaid expenses and other current assets	122	125
TOTAL CURRENT ASSETS	10,250	9,620
PROPERTY, PLANT AND EQUIPMENT, net	648	561
OTHER ASSETS	52	52
TOTAL ASSETS	$ 10,950	$ 10,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable-Post-petition	$ 299	$ 266
Accounts payable-Pre-petition, current portion	1,044	1,058
Customer deposits	230	39
Accrued expenses and other current liabilities (Note 8)	430	505
TOTAL CURRENT LIABILITIES	2,003	1,868
LONG-TERM LIABILITIES, net of current portion	138	148
TOTAL LIABILITIES	2,141	2,016
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, 2,263,775 shares issued and outstanding, net of 173,287 shares of treasury stock	23	23
Additional paid-in capital	2,733	2,733
Retained earnings	6,053	5,461
TOTAL STOCKHOLDERS' EQUITY	8,809	8,217
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 10,950	$ 10,233

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

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

	Three months 2010	Three months 2009	Six Months 2010	Six Months 2009
NET SALES	$ 2,286	$ 1,938	$ 4,409	$ 3,758
Cost of Sales	1,609	1,316	3,287	2,865
Gross Profit	677	622	1,122	893
Selling, General and Administrative Expenses	246	241	538	512
Operating Income	431	381	584	381
OTHER INCOME (EXPENSES)				
Other Income, Net (Note 7)	2	16	2	9
Interest Income	6	3	11	11
Income Tax Expense	(2)	-	(5)	-
Other, Net	6	19	8	20
Net Income	$ 437	$ 400	$ 592	$ 401
Net Income Per Share : Basic	$ .19	$ .18	$ .26	$ .18
: Diluted	$ .18	$ .16	$ .24	$ .16
Weighted Average				
Shares Outstanding : Basic	2,263,775	2,263,775	2,263,775	2,263,775
: Diluted	2,466,310	2,451,081	2,470,541	2,452,983

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

SOLITRON DEVICES, INC.
CONDENSED STATEMENTS OF CASH FLOWS FOR THE
SIX MONTHS ENDED AUGUST 31,
(Unaudited, in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 592	$ 401
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	100	100
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(170)	(72)
Inventories	(143)	(137)
Prepaid expenses and other current assets	3	(5)
Other non-current assets	-	(4)
Increase (Decrease) in:		
Accounts payable – Post-petition	33	(42)
Accounts payable – Pre-petition	(14)	(14)
Customer deposits	191	(22)
Accrued expenses and other current liabilities	(75)	(216)
Other non-current liabilities	(10)	(10)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	507	(21)
CASH FLOW FROM INVESTING ACTIVITIES:		
Investment in treasury bills	(252)	(212)
Purchases of property, plant and equipment	(187)	(78)
NET CASH (USED IN) INVESTING ACTIVITIES	(439)	(290)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	68	(311)
CASH AT THE BEGINNING OF PERIOD	400	440
CASH AT THE END OF PERIOD	$ 468	$ 129

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities
Solitron Devices, Inc., a Delaware corporation (the "Company" or "Solitron"), designs, develops, manufactures, and markets solid-state semiconductor components and related devices primarily for the military and aerospace markets. The Company was incorporated under the laws of the State of New York in 1959 and reincorporated under the laws of the State of Delaware in August 1987.

Basis of Presentation
The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. In management's opinion, all adjustments necessary for a fair statement of the results of the interim periods have been made. All adjustments are of a normal, recurring nature.

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

Investment in Treasury Bills
Investment in Treasury Bills includes treasury bills with maturities of one year or less and is stated at market value.

Accounts Receivable
Accounts receivable consists of unsecured credit extended to the Company's customers in the ordinary course of business. The Company reserves for any amounts deemed to be uncollectible based on past collection experiences and an analysis of outstanding balances using an allowance account. The allowance amount was $2,000 as of August 31, 2010 and February 28, 2010.

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

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

The Company's inventory valuation policy is as follows:

Raw material /Work in process: All material purchased, processed, and/or used in the last two fiscal years is valued at the lower of its acquisition cost or market. All material not purchased/used in the last two fiscal years is fully reserved for.

Finished goods: All finished goods with firm orders for later delivery are valued (material and overhead) at the lower or cost or market. All finished goods with no orders are fully reserved.

Direct labor costs:	Direct labor costs are allocated to finished goods and work in process inventory based on engineering estimates of the amount of man-hours required from the different direct labor departments to bring each device to its particular level of completion.

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

Financial Statement Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and the differences could be material. Such estimates include depreciable life, valuation allowance, and allowance for inventory obsolescence.

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 $250,000 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 August 31 and February 28, 2010 , $218,000 and $150,000 respectively, of the Company's cash reserves were subject to this risk. With respect to the trade receivables, most of the Company's products are custom made pursuant to contracts with customers 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.

2. ENVIRONMENTAL REGULATION:

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

3. COMMITMENTS AND CONTINGENCIES:

Environmental
The Company entered into an Ability to Pay Multi-Site Settlement Agreement with the United States Environmental Protection Agency ("USEPA"), effective February 24, 2006 ("Settlement Agreement"), to resolve the Company's alleged liability to USEPA at the following sites: Solitron Microwave Superfund Site, Port Salerno, Florida ("Port Salerno Site"); Petroleum Products Corporation Superfund Site, Pembroke Park, Florida; Casmalia Resources Superfund Site, Santa Barbara, California ("Casmalia Site"); Solitron Devices Site, Riviera Beach, Florida (the "Riviera Beach Site"); and City Industries Superfund Site, Orlando, Florida (collectively, the "Sites"). The Settlement Agreement required the Company to pay to USEPA the sum of $74,000 by February 24, 2009; the Company paid the entire sum of $74,000 to USEPA on February 27, 2006. In addition, the Company is required to pay to USEPA the sum of $10,000 or 5% of

Solitron's net after-tax income over the first $500,000, if any, whichever is greater, for each year from fiscal years 2010-2013. For payment to USEPA to be above $10,000 for any of these five years, the Company's net income must exceed $700,000 for such year, which has happened in fiscal year 2001, fiscal year 2006, fiscal year 2009 and fiscal year 2010. In February 2010, the Company paid $10,000 to USEPA for fiscal year 2010 based on preliminary net income projections. In July 2010, the Company paid an additional $4,000 for fiscal year 2010 pursuant to its obligations under the Settlement Agreement. The Company has accrued $30,000 for its remaining minimum obligations under the Settlement Agreement. This amount is reflected in "Accrued expenses and other current liabilities" on the Company's balance sheets at August 31, 2010.

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

In consideration of the payments made by the Company under the Settlement Agreement, USEPA agreed not to sue or take any administrative action against the Company with regard to any of the Sites. The Company has also been notified by a group of alleged responsible parties formed at the Casmalia Site ("Casmalia PRP Group") that, based on their review and lack of objection to the Settlement Agreement, the Casmalia PRP Group does not anticipate pursuing Solitron for cost recovery at the Casmalia site.

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

Prior to the sale of the Port Salerno Site and Riviera Beach Site, USEPA took over from FDEP as the lead regulatory agency for the remediation of the Sites. At the closing of the sale of each Site, the net proceeds of sale were distributed to USEPA and/or FDEP or other parties, as directed by the agencies. In addition, upon the sale of the Riviera Beach Site, the Riviera Beach Escrow Account was transferred to USEPA, as directed by the agencies. The Company continues to maintain the Port Salerno escrow account with a current balance of approximately $58,000 as of August 31, 2010. At present, work at the Port Salerno Site is being performed by USEPA. Work at the Riviera Beach Site is being performed by Honeywell, Inc. ("Honeywell"), pursuant to an Administrative Order on Consent entered into between Honeywell and USEPA. The Company has been notified by FDEP that the successful performance of remediation work in accordance with the Consent Final Judgment standards by USEPA at the Port Salerno Site and by Honeywell at the Riviera Beach Site will be construed by FDEP as discharging the Company's remediation obligations under the Consent Final Judgment.

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

By letter dated November 16, 2006, FDEP notified the Company that FDEP has unreimbursed expenses associated with the Port Salerno Site and Riviera Beach Site of $214,800. In 2006, FDEP also notified the Company that FDEP required the Company to resume payments under the Consent Final Judgment to ensure that there are adequate funds to cover FDEP's unreimbursed expenses and the Company's residual liability under the Consent Final Judgment. During a follow up telephone conversation in 2006 with the Company's attorney, FDEP advised the Company that FDEP would prepare a justification for the asserted unreimbursed expenses. Upon receipt of the cost reimbursement package, the Company is required to transfer $55,000 from the Port Salerno Escrow Account to FDEP as partial payment for FDEP's unreimbursed expenses that are otherwise recoverable under the Consent Final Judgment. FDEP further stated, during the telephone conversation, that FDEP will work with the Company to establish a reduced payment schedule for the Company to resume under the Consent Final Judgment based on an appropriate showing by the Company of financial hardship. The Company is currently awaiting receipt of FDEP's cost reimbursement package. Upon receipt of that documentation, the Company will be required to provide a recommendation to FDEP for resumption of payments to FDEP under the Consent Final Judgment based on the

Company’s present ability to pay.

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

On August 7, 2002, the Company received a Request for Information from the State of New York Department of Environmental Conservation (“NYDEC”), seeking information on whether the Company had disposed of certain wastes at the Clarkstown Landfill Site located in the Town of Clarkstown, Rockland County, New York (The Clarkstown Landfill Site”). By letter dated August 29, 2002, the Company responded to the Request for Information and advised NYDEC that the Company’s former Tappan, New York facility had closed in the mid-1980’s, prior to the initiation of the Company’s bankruptcy proceedings described below. The Company contends that, to the extent that NYDEC has a claim against the Company as a result of the Company’s alleged disposal of wastes at the Clarkstown Landfill Site prior to the closing of the Company’s former Tappan facility in the mid-1980’s, the claim was discharged in bankruptcy as a result of the Bankruptcy Court’s August 1993 Order. At NYDEC’s request, the Company entered into a revised Tolling Agreement with NYDEC on December 28, 2009, which provides for the tolling of applicable statutes of limitation through the earlier of November 19, 2010, or the date the State institutes a suit against the Company for any claims associated with the Clarkstown Landfill Site. It is not known at this time whether NYDEC will pursue a claim against the Company in connection with the Clarkstown Landfill Site. As of the date of this filing, no such claim has been made by NYDEC. The Clarkstown Landfill Joint Defense Group (“Clarkstown JDG”), a group of potentially responsible parties formed to respond to claims by NYDEC for recovery of closure and clean-up response costs at the Clarkstown Landfill Site, is negotiating with NYDEC to settle the claims of NYDEC against all potentially responsible parties at the Clarkstown Landfill site that participate in the Clarkstown JDG. In connection with those negotiations, the Clarkstown JDG, by letter dated March 17, 2010, offered to pursue a settlement of NYDEC’s potential claim against the Company in return for the Company’s agreement to pay the sum of $125,000.00, representing the Company’s alleged share of the overall settlement with NYDEC. The Company rejected the settlement offer on March 29, 2010, based on its continuing contention that any claim of NYDEC against the Company was discharged in bankruptcy as a result of the Bankruptcy Court’s August 1993 Order.

4. EARNINGS PER SHARE:

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

	For the three months ended August 31,		For the six months ended August 31,	
	2010	2009	2010	2009
Weighted average common shares outstanding	2,263,775	2,263,775	2,263,775	2,263,775
Dilutive effect of employee stock options	202,535	187,306	206,766	189,208
Weighted average common shares outstanding, assuming dilution	2,466,310	2,451,081	2,470,541	2,452,983

Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. For the three and six month periods ended August 31, 2010 and August 31, 2009, 13,500 shares (at $3.95) underlying the Company's stock options were excluded from the calculation of diluted earning per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive.

5. INVENTORIES:

As of August 31, 2010, inventories consist of the following:

	Gross	Reserve	Net
Raw Materials	$ 1,727,000	$ (396,000)	$ 1,331,000
Work-In-Process	2,488,000	(868,000)	1,620,000
Finished Goods	481,000	(480,000)	1,000
Totals	$ 4,696,000	$ (1,744,000)	$ 2,952,000

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

As of February 28, 2010, inventories consist of the following:

	Gross	Reserve	Net
Raw Materials	$ 1,515,000	$ (379,000)	$ 1,136,000
Work-In-Process	2,364,000	(760,000)	1,604,000
Finished Goods	557,000	(488,000)	69,000
Totals	$ 4,436,000	$ (1,627,000)	$ 2,809,000

6. INCOME TAXES:

At August 31, 2010, the Company has net operating loss carryforwards of approximately $15,247,000 that expire through 2024. 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 mostly 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.

Total net deferred taxes were comprised of the following as of August 31 and February 28, 2010:

Deferred tax assets:	August 31, 2010	February 28, 2010
Loss carryforwards	$ 5,738,000	$ 6,005,000
Allowance for doubtful accounts	1,000	1,000
Inventory allowance	656,000	612,000
Depreciation	107,000	109,000
Section 263A capitalized costs	126,000	126,000
Total deferred tax assets	6,628,000	6,853,000
Valuation allowance	(6,628,000)	(6,853,000)
Total net deferred taxes	$ 0	$ 0

The change in the valuation allowance on deferred tax assets is due principally to the utilization of the net operating loss for the quarter ended August 31, 2010 and for the year ended February 28, 2010.

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate for the quarter ended August 31, 2010 and for the year ended February 28, 2010 is as follows:

	August 31, 2010	February 28, 2010
U.S. federal statutory rate	34.0%	34.0%
Change in valuation allowance	(34.0)	(34.0)
Effective income tax rate	0.0%	0.0%

7. OTHER INCOME:

The $6,000 of other income reflected in the condensed statements of income for the quarter ended August 31, 2010 consists of $6,000 of interest income on investment in treasury bills net of changes in market value plus $2,000 of income tax benefit minus $2,000 of income tax expense. The $19,000 of net other income reflected in the condensed statements of income for the quarter ended August 31, 2009 consists of $3,000 of interest income on investment in treasury bills net of changes in market value plus $16,000 of income tax benefit.

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

8. ACCRUED EXPENSES:

As of August 31, 2010 and February 28, 2010, accrued expenses and other liabilities consisted of the following:

	August 31, 2010	February 28, 2010
Payroll and related employee benefits	$ 386,000	$ 469,000
Other liabilities	44,000	36,000
	$ 430,000	$ 505,000

9. EXPORT SALES AND MAJOR CUSTOMERS:

Revenues from domestic and export sales to unaffiliated customers for the three months ended August 31, 2010 are as follows:

Geographic Region	Power Transistors	Hybrids	Field Effect Transistors	Power MOSFETS	Totals
Europe and Australia	$ 4,000	$ 507,000	$ 26,000	$ 0	$ 537,000
Canada and Latin America	6,000	0	0	0	6,000
Far East and Middle East	1,000	0	0	82,000	83,000
United States	322,000	799,000	218,000	321,000	1,660,000
Totals	$ 333,000	$ 1,306,000	$ 244,000	$ 403,000	$ 2,286,000

Revenues from domestic and export sales to unaffiliated customers for the three months ended August 31, 2009 are as follows:

Geographic Region	Power Transistors	Hybrids	Field Effect Transistors	Power MOSFETS	Totals
Europe and Australia	$ 50,000	$ 61,000	$ 4,000	$ 3,000	$ 118,000
Canada and Latin America	11,000	0	24,000	1,000	36,000
Far East and Middle East	0	0	0	48,000	48,000
United States	150,000	960,000	249,000	377,000	1,736,000
Totals	$ 211,000	$ 1,021,000	$ 277,000	$ 429,000	$ 1,938,000

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

For the quarter ended August 31, 2010, sales to the Company's top two customers, Raytheon Company (17%) and BAE Systems Australia (22%), accounted for 39% of net sales. For the quarter ended August 31, 2009, sales to the Company's top two customers, Raytheon Company (49%) and BAE Systems Australia (5%), accounted for 54% of net sales. The Company's shipments to its customers depend upon the customer's specific requirements and upon the availability of raw materials.

10. EXPORT SALES AND MAJOR CUSTOMERS:

Purchases from the Company’s two top suppliers, WUXI Streamtek ltd. (10%) and Air Products, Inc. (7%), accounted for 17% of total purchases of production materials for the quarter ended August 31, 2010. For the quarter ended August 31, 2009, purchases from the Company’s two top suppliers, Platronics Seals (22%) and Eastern States Components, Inc. (10%), accounted for 32% of the Company's total purchases of production materials.

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

Overview:

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

The following discussion and analysis of factors which have affected the Company's financial position and operating results during the periods included in the accompanying Condensed Financial Statements should be read in conjunction with the Financial Statements and the related Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended February 28, 2010 and the Condensed Financial Statements and the related Notes to Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q which are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our significant accounting policies include inventories, valuation of property, plant and equipment, revenue recognition and accounting for income taxes. A discussion of all of these significant accounting policies can be found in Note 1 of the "Notes To Financial Statements" in Part I, Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 28, 2010.

Trends and Uncertainties:

During the three months ended August 31, 2010, the Company's book-to-bill ratio was approximately .83 as compared to approximately 1.05 for the three months ended August 31, 2009, reflecting a decrease in the volume of orders booked. Generally, the intake of orders varies greatly from period to period as a result of the fluctuations in the general economy, variations in defense spending on programs the Company supports, and the timing of contract awards by the Department of Defense and subsequently by its prime contractors. This fluctuation in the intake of orders has existed for the past 18 years and is expected to continue over the next 24 months. The Company continues its efforts to reduce its variable manufacturing costs to offset the potential impact of low volume of orders to be shipped. However, should order intake fall drastically below the level experienced in the last twenty four months, the Company might be required to implement further cost cutting or other downsizing measures to continue its business operations.

Inventories

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

The Company's inventory valuation policy is as follows:

Raw material /Work in process:	All material purchased, processed and/or used in the last two fiscal years is valued at the lower of its acquisition cost or market. All material not purchased/used in the last two fiscal years is fully reserved for.

Finished goods:	All finished goods with firm orders for later delivery are valued (material and overhead) at the lower of cost or market. All finished goods with no orders are fully reserved.
Direct labor costs:	Direct labor costs are allocated to finished goods and work in process inventory based on engineering estimates of the amount of man hours required from the different direct labor departments to bring each device to its particular level of completion.

Results of Operations-Three Months Ended August 31, 2010 Compared to Three Months Ended August 31, 2009:

Net sales for the three months ended August 31, 2010 increased 18% to $2,286,000 as compared to $1,938,000 for the three months ended August 31, 2009. This increase was primarily attributable to a higher level of orders that were shipped in accordance with customer requirements.

Cost of sales for the three months ended August 31, 2010 increased to $1,609,000 from $1,316,000 for the comparable period in 2009, primarily due to an increase in net sales and higher cost of raw materials. Expressed as a percentage of sales, cost of sales increased to 70% from 68% for the same period in 2009. This increase in percentage was due primarily to an increase in cost of raw materials percentage.

Gross profit for the three months ended August 31, 2010 increased to $677,000 from $622,000 for the three months ended August 31, 2009, primarily due to an increase in net sales offset by higher cost of materials. Accordingly, gross margins on the Company's sales decreased to 30% for the three months ended August 31, 2010 in comparison to 32% for the three months ended August 31, 2009. This percentage decrease was due primarily to higher sales offset by an increase in cost of raw materials percentage.

For the three months ended August 31, 2010, the Company shipped 34,882 units as compared to 32,221 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

The Company's backlog of open orders decreased 6% to $6,510,000 for the three months ended August 31, 2010 as compared to the same period in the prior year. For the three months ended August 31, 2009, the Company's backlog of open orders increased 2% to $5,327,000 as compared to the same period in the prior year. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company has experienced a decrease of 7% to $1,894,000 in the level of bookings during the quarter ended August 31, 2010 as compared to the same period in the prior year. For the three months ended August 31, 2009, the Company experienced a 31% decrease to $2,040,000 in the level of bookings as compared to the same period in the prior year. The decrease in bookings for the current quarter is principally as a result of a decrease in defense spending, resulting in a decrease in the monetary value of, and timing differences in the placement of contracts by the Department of Defense and its prime contractors.

Selling, general, and administrative expenses increased to $246,000 for the three months ended August 31, 2010 from $241,000 for the comparable period in 2009. The increase reflects higher labor and sales commission expenses. During the three months ended August 31, 2010, selling, general, and administrative expenses as a percentage of net sales fell to 11% as compared with 12% for the three months ended August 31, 2009. The percentage decrease was due primarily to an increase in net sales.

Operating income for the three months ended August 31, 2010 increased to $437,000 as compared to $381,000 for the three months ended August 31, 2009. This increase is due primarily to higher net sales offset by higher cost of materials.

The Company recorded net other income of $6,000 for the three months ended August 31, 2010 as compared to $19,000 for the three months ended August 31, 2009. Included in net other income was $6,000 of interest income on investment in treasury bills net of changes in market value for the three months ended August 31, 2010 plus $2,000 of income tax benefit offset by $2,000 of income tax expense. For the three months ended August 31, 2009, the Company recorded $3,000 of interest income on investment in treasury bills net of changes in market value in addition to $16,000 of other income tax benefit. The increase in interest income is due primarily to higher rates of return on invested funds.

Net income for the three months August 31, 2010 increased to $437,000 as compared to $400,000 for the same period in 2009. This increase is due primarily to higher net sales.

Results of Operations-Six Months Ended August 31, 2010 Compared to Six Months Ended August 31, 2009:

Net sales for the six months ended August 31, 2010 increased 17% to $4,409,000 as compared to $3,758,000 for the six months ended August 31, 2009. This increase was primarily attributable to a higher level of orders that were shipped in accordance with customer requirements.

Cost of sales for the six months ended August 31, 2010 increased to $3,287,000 from $2,865,000 for the comparable period in 2009, primarily due to an increase in net sales and higher cost of materials. Expressed as a percentage of sales, cost of sales decreased to 75% from 76% for the same period in 2009. This percentage decrease was due primarily to an increase in net sales, offset by higher cost of raw materials.

Gross profit for the six months ended August 31, 2010 increased to $1,122,000 from $893,000 for the six months ended August 31, 2009, primarily due to an increase in net sales offset by higher cost of raw materials. Gross margins on the Company's sales increased to 25% from 24% for the same period in 2009. This percentage increase was primarily due to an increase in net sales, offset by higher cost of raw materials.

For the six months ended August 31, 2010, the Company shipped 86,123 units as compared to 80,680 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

The Company's backlog of open orders increased 10% to $6,510,000 for the six months ended August 31, 2010 when compared with the six months ended August 31, 2009. Changes in backlog resulted from changes in the intake of orders and in the delivery dates required by customers.

The Company has experienced an increase of 80% to $4,991,000 in the level of bookings during the six months ended August 31, 2010 when compared with the six months ended August 31, 2009. The increase occurred principally as a result of a shift in defense spending priorities, resulting in an increase in the monetary value of, and timing differences in the placement of contracts by the Department of Defense and its prime contractors. The increase occured primarily during the three months ended May 31, 2010.

Selling, general, and administrative expenses increased to $538,000 for the six months ended August 31, 2010 from $512,000 for the comparable period in 2009, primarily due to higher sales commissions and general labor costs. During the six months ended August 31, 2010, selling, general, and administrative expenses as a percentage of net sales decreased to 12% as compared to 14% for the six months ended August 31, 2009. This percentage decrease was primarily due to an increase in net sales.

Operating income for the six months ended August 31, 2010 increased to $584,000 from $381,000 for the six months ended August 31, 2009. This increase is due primarily to an increase in net sales offset by higher cost of raw materials.

The Company recorded net other income of $8,000 for the six months ended August 31, 2010 as compared to net other income of $20,000 for the six months ended August 31, 2009. Included in net other income was interest income of $11,000 for the six months ended August 31, 2010, $2,000 of income tax benefit, and $5,000 of income tax expense. Included in net other income for the six months ended August 31, 2009 was $11,000 of interest income, and

$16,000 of income tax benefit offset by $7,000 of expense from receivables adjustments.

Net income for the six months ended August 31, 2010 increased to $592,000 from $401,000 for the same period in 2009. This increase was due primarily to an increase in net sales and a decrease in cost of sales percentage as discussed above.

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 required to sustain operations will be approximately $250,000 during the current fiscal year and will be funded from operations.

Based upon (i) management's best information as to current national defense priorities, future defense programs, as well as management's expectations as to future defense spending, (ii) a fluctuation in the intake of orders as discussed above (see Part I, Item 2 of this Quarterly Report on Form 10-Q), and an increase in the cost of raw materials and operations that will result in the potential erosion of profit levels and continued price pressures due to severe price lowering pressures by defense customers, and (iii) the continued intense competition in the defense and aerospace market, the Company believes that it will have sufficient cash on hand to satisfy its operating needs during the current fiscal year. However, due to the level of current backlog and new order intake (due to the status of the general economy and the shift to Commercial Off –The-Shelf (COTS) by the defense industry), the Company might operate at a break even or a small profit during the balance of the current fiscal year. In the event the Company experiences a significant slowdown in the intake of new orders, the Company may be required to implement cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. In appropriate situations, the Company may seek strategic alliances, joint ventures with others or acquisitions in order to maximize marketing potential and utilization of existing resources and provide further opportunities for growth.

The Company reported net income of $592,000 and operating income of $584,000 for the six months ended August 31, 2010.

At August 31, 2010, February 28, 2010 and August 31, 2009, the Company had cash of approximately $468,000, $400,000 and $129,000, respectively. Net income contributed $575,000 to the last six months' cash flow generated by ongoing operations.

At August 31, 2010, February 28, 2010 and August 31, 2009, the Company had investments in treasury bills of approximately $5,853,000, $5,601,000 and $5,325,000, respectively.

At August 31, 2010, the Company had working capital of $8,230,000 as compared with a working capital at August 31, 2009 of $7,381,000. At February 28, 2010, the Company had a working capital of $7,752,000. The $478,000 increase for the six months ended August 31, 2010 was due mainly to a $490,000 combined increase in cash, receivables and investments in treasury bills offset by an increase in customer deposits.

Off-Balance Sheet Arrangements:

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable

FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report on Form 10-Q are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended February 28, 2010, including those identified below. We do not undertake any obligation to update forward-looking statements.

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Our Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e), and 15d-15(e)) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

Based on an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during our last fiscal quarter identified in connection with that evaluation, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II– OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibits

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

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

SIGNATURES

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

SOLITRON DEVICES, INC.

Date: October 11, 2010

/s/ Shevach Saraf
Shevach Saraf
Chairman, President,
Chief Executive Officer,
Treasurer and
Chief Financial Officer
(Principal executive officer and
principal financial officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
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