SOLITRON DEVICES INC
Form 10-Q/A
January 18, 2013

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

FORM 10-Q/A

Amendment No. 1
(Mark one)

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

For the quarterly period ended November 30, 2012

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGEACT 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 x 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 o	Accelerated filer o
Non-accelerated filer o	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 January 1, 2013 was 2,177,832.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A is being filed solely to revise the disclosure regarding backlog of open orders contained within Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Solitron Devices, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2012 filed with the Securities and Exchange Commission on January 14, 2013. All other information in the Form 10-Q, including the financial statements, is unchanged from the original filing.

SOLITRON DEVICES, INC.

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PART 1 - FINANCIAL INFORMATION

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 29, 2012 and the Condensed Financial Statements and the related Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q which are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies include cash and cash equivalents, investment in Treasury bills and certificates of deposit, accounts receivable, shipping and handling, and inventories. A discussion of all of these critical accounting policies can be found in Note 1 of the "Notes To Financial Statements" in Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

Trends and Uncertainties:

During the three months ended November 30, 2012, the Company's book-to-bill ratio was approximately .39 as compared to approximately .43 for the three months ended November 30, 2011, reflecting a decrease in the volume of orders booked. The Company does not believe that, in most years, the year-to-year change in the book-to-bill ratio indicates a specific trend in the demand for the Company's products. The potential impact that government actions in the next two years will have on future bookings is unclear at this time. Generally, the intake of orders over the last twenty four months has varied greatly as a result of the fluctuations in the general economy, variations in defense spending on programs the Company supports, and the timing of contract awards by the Department of Defense and subsequently by its prime contractors, which is expected to continue over the next twelve to twenty four months. The Company continues to identify means intended to reduce its variable manufacturing costs to offset the potential impact of low volume of orders to be shipped. However, should order intake fall drastically in the coming periods, the Company might be required to implement further cost cutting or other downsizing measures to continue profitable 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.

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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 November 30, 2012 Compared to Three Months Ended November 30, 2011:

Net sales for the three months ended November 30, 2012 decreased 7% to $1,966,000 as compared to $2,112,000 for the three months ended November 30, 2011. This decrease was primarily attributable to a lower level of orders that were shipped in accordance with customer requirements and unanticipated delays in receipt of key raw material components.

Cost of sales for the three months ended November 30, 2012 decreased to $1,547,000 from $1,729,000 for the comparable period in 2011, primarily due to lower raw material cost. Expressed as a percentage of sales, cost of sales decreased to 79% from 82% for the same period in 2011. This decrease in percentage was due primarily to lower raw material cost of products shipped during the quarter.

Gross profit for the three months ended November 30, 2012 increased to $419,000 from $383,000 for the three months ended November 30, 2011, primarily due to lower raw material cost of products shipped during the quarter. Accordingly, gross margins on the Company's sales increased to 21% for the three months ended November 30, 2012 in comparison to 18% for the three months ended November 30, 2011.

For the three months ended November 30, 2012, the Company shipped 43,003 units as compared to 26,934 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

For the three months ended November 30, 2012, the Company's backlog of open orders increased 60% to $7,632,000 as compared to the same period of the prior year. For the three months ended November 30, 2011, the Company's backlog of open orders decreased 20% to $4,780,000 as compared to same period in 2010. For the three months ended November 30, 2012, the Company's backlog of open orders decreased 14% to $7,632,000 as compared to the three months ended August 31, 2012. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company has experienced a decrease of 17% to $761,000 in the level of bookings during the quarter ended November 30, 2012 as compared to the same period in the prior year. For the three months ended November 30, 2011, the Company experienced a 48% decrease to $914,000 in the level of bookings as compared to the same period in the prior year. The decrease in bookings for the three months ended November 30, 2012 is principally a result of a decrease in the placement of orders by key customers, resulting in a decrease in the monetary value of, and timing differences in, the placement of contracts by the Department of Defense and its prime contractors.

Selling, general, and administrative expenses decreased to $249,000 for the three months ended November 30, 2012 from $293,000 for the same period in the prior year. The decrease reflects lower sales wages, sales commissions, and administrative wages. During the three months ended November 30, 2012, selling, general, and administrative expenses as a percentage of net sales decreased to 13% as compared with 14% for the three months ended November 30, 2011.

Operating income for the three months ended November 30, 2012 increased to $170,000 as compared to $90,000 for the three months ended November 30, 2011. This increase is due primarily to lower raw material cost of products shipped during the period and lower cost of selling, general and administrative expenses.

The Company recorded $230,000 of other income for the quarter ended November 30, 2012 as compared to $8,000 for the quarter ended November 30, 2011. Other income for the three months ended November 30, 2012 consists of $215,000 of income from cancellation of debt (see Note 8) plus $11,000 of interest income on investment in treasury bills net of changes in market value plus $4,000 of income from federal tax adjustments. Other income for the quarter ended November 30, 2011 consists entirely of gain on disposal of assets.

Net income for the three months November 30, 2012 increased to $399,000 as compared to $93,000 for the same period in 2011. This increase is due primarily to lower raw material cost of product shipped during the period and higher other income as described above.

Results of Operations-Nine months Ended November 30, 2012 Compared to Nine months Ended November 30, 2011:

Net sales for the nine months ended November 30, 2012 decreased 6% to $5,999,000 as compared to $6,412,000 for the nine months ended November 30, 2011. This decrease was primarily attributable to a lower level of orders that were shipped in accordance with customer requirements and unanticipated delays in receipt of key raw material components.

Cost of sales for the nine months ended November 30, 2012 decreased to $4,691,000 from $4,839,000 for the comparable period in 2011 primarily due to a lower level of shipments and a higher cost of materials caused by higher precious metal prices and higher cost of raw material recently acquired and lower yields on devices produced. Expressed as a percentage of sales, cost of sales increased to 78% as compared to 75% for the same period in 2011.

Gross profit for the nine months ended November 30, 2012 decreased to $1,308,000 from $1,573,000 for the nine months ended November 30, 2011, primarily due to a lower level of shipments and a higher cost of materials as outlined above. Gross margins on the Company's sales decreased to 22% as compared to 25% for the same period in 2011.

For the nine months ended November 30, 2012, the Company shipped 139,666 units as compared to 115,154 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

For the nine months ended November 30, 2012, the Company's backlog of open orders increased 60% to $7,632,000 as compared to the same period of the prior year. For the nine months ended November 30, 2011, the Company's backlog of open orders decreased 20% to $4,780,000 as compared to same period in 2010. 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 64% to $7,645,000 in the level of bookings during the nine months ended November 30, 2012 when compared with the nine months ended November 30, 2011. The increase occurred principally as a result of an increase in the placement of orders by key customers, resulting in an increase in the monetary value of, and timing differences in, the placement of contracts by the Department of Defense and its prime contractors.

Selling, general, and administrative expenses increased to $825,000 for the nine months ended November 30, 2012 from $797,000 for the comparable period in 2011, primarily due to higher legal and professional fees associated with the stock buyback (see the Company's Form 10-Q dated August 31, 2012) and cancellation of debt mentioned earlier in this report. During the nine months ended November 30, 2012, selling, general, and administrative expenses as a percentage of net sales increased to 14% as compared to 12% for the nine months ended November 30, 2011.

Operating income for the nine months ended November 30, 2012 decreased to $483,000 from $776,000 for the nine months ended November 30, 2011. This decrease is due primarily to lower net sales and higher cost of materials as outlined above.

The Company recorded other income of $269,000 for the nine months ended November 30, 2012 as compared to other income of $19,000 for the nine months ended November 30, 2011. Included in other income for the nine months ended November 30, 2012 was $215,000 of income from cancellation of debt plus $38,000 of interest income on investment in treasury bills and certificates of deposit net of changes in market value plus $12,000 of income from receivables adjustments and $4,000 of income from federal tax adjustments. Included in other income for the nine months ended November 30, 2011, was $11,000 of interest income on investment in treasury bills net of changes in market value plus $8,000 gain on disposal of assets.

Net income for the nine months ended November 30, 2012 decreased to $745,000 from $783,000 for the same period in 2011. This decrease is due primarily to lower net sales and higher cost of materials as outlined above, offset by an increase in other income.

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 $400,000 during the current fiscal year and will be funded from operations and from its cash reserves.

Based upon (i) management's best information as to current national defense priorities, future defense programs, as well as management's expectations as to future defense spending, (ii) the market trends signaling a declining level of bookings, but with an increase in the cost of raw materials and operations that will result in the potential erosion of profit levels and continued price pressures due to more intense competition, and (iii) the continued competition in the defense and aerospace market, the Company believes that it will have sufficient cash on hand to satisfy its operating needs during the next twelve months and at the current level of payments to its pre-bankruptcy creditors. However, due to the level of current backlog and projected 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 be required to take cost cutting and productivity enhancing activity to assure its continued profitability.

Over the long-term, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company believes that it will generate sufficient cash from operations to satisfy its operating needs and the level of payments to pre-bankruptcy creditors it has maintained over the last nineteen years. In the event that bookings in the long-term decline significantly below the level experienced during the previous two fiscal years, the Company may be required to implement 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 or joint ventures with others or acquisitions in order to maximize marketing potential and utilization of existing resources to provide further opportunities for growth.

At November 30, 2012, February 29, 2012 and November 30, 2011, the Company had cash of approximately $671,000, $985,000 and $732,000, respectively. The cash decrease for the nine months ended November 30, 2012 was primarily due to an increase in raw material inventory, the stock buyback (see the Company's Form 10-Q dated August 31, 2012), and the settlement with Police and Fire Retirement System of City of Detroit.

At November 30, 2012, February 29, 2012 and November 30, 2011, the Company had investments in treasury bills and certificates of deposit of approximately $5,888,000, $6,614,000 and $6,697,000, respectively.

At November 30, 2012, the Company had working capital of $10,195,000 as compared with a working capital at November 30, 2011 of $9,627,000. At February 29, 2012, the Company had a working capital of $9,635,000. The $560,000 increase for the nine months ended November 30, 2012 was due mainly to the $745,000 net income for the period.

Off-Balance Sheet Arrangements:

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

Forward Looking Statements:

Some of the statements in this Quarterly Report on Form 10-Q are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended February 29, 2012, including those identified below. We do not undertake any obligation to update forward-looking statements, except as required by law.

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

If we cannot obtain three-inch silicon wafers we could lose revenues due to an inability to build our products and we may be required to make significant, costly upgrades to our manufacturing equipment, pay expensive costs of retooling and lengthy process updates, as it will require us to upgrade to four inch or larger wafers.

Replacements for our aging equipment could become costly and difficult to obtain.

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 in 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.

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. They may also affect the availability of raw materials which may adversely affect our profitability.
Failure to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.

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

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS:

Exhibits

10.1	Settlement Agreement and Release, dated October 29, 2012, by and between Solitron Devices, Inc., its affiliates, agents and representatives and the Police and Fire Retirement System of City of Detroit, its affiliates, agents and representatives (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 31, 2012).
10.2	Employment Agreement Amendment, dated January 14, 2013, by and between Solitron Devices, Inc. and Shevach Saraf+
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. **
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase
101.DEF***	XBRL Taxonomy Extension Definition Linkbase
101.LAB***	XBRL Taxonomy Label Linkbase
101.PRE***	XBRL Taxonomy Presentation Linkbase

* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections. Previously furnished with the Company's Form 10-Q for the quarter ended November 30, 2012, filed with the SEC on January 14, 2013.

\+ Management contract or compensatory plan or arrangement. Previously filed with the Company's Form 10-Q for the quarter ended November 30, 2012, filed with the SEC on January 14, 2013.

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: January 18, 2013

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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
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. **

* Filed herewith.

** Furnished herewith.