

SOLITRON DEVICES INC
Form 10-Q
January 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended November 30, 2014

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. 001-04978

SOLITRON DEVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: SOLITRON DEVICES INC - Form 10-Q

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

22-1684144
(I.R.S. Employer
Identification No.)

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

(561) 848-4311

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of January 15, 2015 was 2,185,832.

SOLITRON DEVICES, INC.

TABLE OF CONTENTS

PART 1 - FINANCIAL INFORMATION

| | Page No. |
|--|----------|
| Item 1. Financial Statements | |
| Condensed Balance Sheets November 30, 2014 (unaudited) and February 28, 2014 | 2 |
| Condensed Statements of Income (unaudited) Three and Nine months Ended November 30, 2014 and 2013 | 3 |
| Condensed Statements of Cash Flows (unaudited) Nine months Ended November 30, 2014 and 2013 | 4 |
| Notes to Condensed Financial Statements | 5-13 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 14-19 |
| Item 4. Controls and Procedures | 20 |

PART II – OTHER INFORMATION

| | |
|-----------------------|----|
| Item 1A. Risk Factors | 22 |
| Item 6. Exhibits | 22 |
| Signatures | 23 |

PART I – FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

SOLITRON DEVICES, INC.

CONDENSED BALANCE SHEETS

AS OF NOVEMBER 30, 2014 AND FEBRUARY 28, 2014

(unaudited)

| | November 30, 2014 | February 28, 2014 |
|--|--|----------------------|
| | (in thousands, except for share and per share amounts) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$489 | \$ 625 |
| Treasury bills and certificates of deposit | 6,970 | 6,261 |
| Accounts receivable, less allowance for doubtful accounts of \$2 | 680 | 785 |
| Inventories, net (Note 5) | 4,494 | 4,316 |
| Prepaid expenses and other current assets | 154 | 155 |
| TOTAL CURRENT ASSETS | 12,787 | 12,142 |
| PROPERTY, PLANT AND EQUIPMENT, net | 480 | 558 |
| OTHER ASSETS | 8 | 7 |
| TOTAL ASSETS | \$13,275 | \$ 12,707 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable – Post-petition | \$398 | \$ 307 |
| Accounts payable – Pre-petition | - | 8 |
| Customer deposits | 95 | 94 |
| Accrued expenses and other liabilities (Note 8) | 520 | 605 |
| TOTAL CURRENT LIABILITIES | 1,013 | 1,014 |
| TOTAL LIABILITIES | 1,013 | 1,014 |

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, 2,185,832 shares issued and outstanding, net of 273,230 shares of treasury stock as of Nov 30, 2014 | 23 | 23 |
| 2,177,832 shares issued and outstanding, net of 273,230 shares of treasury stock as of Feb 28, 2014 | | |
| Additional paid-in capital | 2,749 | 2,743 |
| Accumulated other comprehensive income | 14 | 14 |
| Retained earnings | 9,751 | 9,188 |
| Less treasury stock | (275) | (275) |
| TOTAL STOCKHOLDERS' EQUITY | 12,262 | 11,693 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$13,275 | \$ 12,707 |

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

SOLITRON DEVICES, INC.

CONDENSED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2014 AND NOVEMBER 30, 2013

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

| | Three months | | Nine months | |
|--|--------------|-----------|-------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| NET SALES | \$2,418 | \$2,115 | \$7,028 | \$6,432 |
| Cost of Sales | 1,811 | 1,428 | 5,292 | 4,645 |
| Gross Profit | 607 | 687 | 1,736 | 1,787 |
| Selling, General and Administrative Expenses | 343 | 413 | 1,065 | 1,180 |
| Operating Income | 264 | 274 | 671 | 607 |
| Other income (Note 7) | | | | |
| Other income | - | 77 | 8 | 163 |
| Interest Income | 6 | 12 | 12 | 28 |
| Total other income | 6 | 89 | 20 | 191 |
| Income before provision for income taxes | 270 | 363 | 691 | 798 |
| Provision for income taxes | (12 |) (3 |) (19 |) (9 |
| Net Income | \$258 | \$360 | \$672 | \$789 |
| Other comprehensive income: | | | | |
| Unrealized (loss) on investments | - | (9 |) - | (7 |
| Total comprehensive income | \$258 | \$351 | \$672 | \$782 |
| Income Per Share from operating income-Basic | \$.12 | \$.13 | \$.31 | \$.28 |
| Income Per Share from operating income-Diluted | \$.11 | \$.11 | \$.28 | \$.25 |
| Net Income Per Share-Basic | \$.12 | \$.16 | \$.31 | \$.36 |
| Net Income Per Share-Diluted | \$.11 | \$.15 | \$.28 | \$.33 |
| Weighted average shares outstanding-Basic | 2,185,832 | 2,177,832 | 2,183,224 | 2,177,832 |
| Weighted average shares outstanding-Diluted | 2,410,611 | 2,405,711 | 2,407,610 | 2,403,931 |

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

SOLITRON DEVICES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED NOVEMBER 30, 2014 AND NOVEMBER 30, 2013

(Unaudited)

| | 2014 | 2013 |
|---|----------------|----------------|
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$672 | \$782 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 168 | 175 |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | 105 | 381 |
| Inventories, net | (178) | (483) |
| Prepaid expenses and other current assets | 1 | (18) |
| Other assets | (1) | 23 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable – Post-petition | 91 | (83) |
| Accounts payable – Pre-petition | (8) | (274) |
| Customer deposits | 1 | (75) |
| Accrued expenses | (85) | (132) |
| Long-term liabilities | - | - |
| Total adjustments | 94 | (486) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 766 | 296 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sales of Treasury Bills and Certificates of Deposit | 4,769 | 1,799 |
| Purchases of Treasury Bills and Certificates of Deposit | (5,478) | (2,831) |
| Purchases of property, plant and equipment | (90) | (184) |
| NET CASH (USED IN) INVESTING ACTIVITIES | (799) | (1,216) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash from exercise of employee stock options | 6 | - |
| Payment of Dividends | (109) | - |
| NET CASH (USED IN) FINANCING ACTIVITIES | (103) | - |
| Net (decrease) in cash and cash equivalents | (136) | (920) |
| Cash and cash equivalents – beginning of the period | 625 | 1,297 |
| Cash and cash equivalents - end of the period | \$489 | \$377 |

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

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities

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

Basis of Presentation

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

The unaudited condensed financial information furnished herein reflects all adjustments, consisting of normal recurring items that, in the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. The results of operations for the nine months ended November 30, 2014 are not necessarily indicative of the results to be expected for the year ending February 28, 2015.

The information included in this Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended February 28, 2014.

Cash and Cash Equivalents

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

Investment in Treasury Bills and Certificates of Deposit

Edgar Filing: SOLITRON DEVICES INC - Form 10-Q

For the quarter ended November 30, 2014, investment in treasury bills and certificates of deposit include certificates of deposit with maturities from one year or less, and is stated at market value.

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

Total Face Value as of 11/30/14
(In thousands)
Certificates of Deposit \$ 6,970

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

As of November 30, 2014, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

| | Face value (In thousands) | Fair Value (In thousands) |
|--------------------------|------------------------------|------------------------------|
| Maturing within one year | \$ 6,970 | \$ 6,970 |

Fair Value of Financial Instruments

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

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

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

The carrying amounts of the Company's short-term financial instruments, including accounts receivable, accounts payable, accrued expenses and other liabilities approximate their fair value due to the relatively short period to maturity for these instruments. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities, and the carrying amount of the long-term debt approximates fair 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 November 30, 2014 and February 28, 2014.

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.

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

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. |
| 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. |

Revenue Recognition

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

Financial Statement Estimates

The preparation of condensed financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and the differences could be material. Such estimates include depreciable life, valuation allowance, and allowance for inventory obsolescence.

Recent Accounting Pronouncements

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

2. ENVIRONMENTAL REGULATION

While the Company believes that it has the environmental permits necessary to conduct its business and that its operations conform to present environmental regulations, increased public attention has been focused on the environmental impact of semiconductor manufacturing operations. The Company, in the conduct of its manufacturing operations, has handled and does handle materials that are considered hazardous, toxic or volatile under federal, state and local laws and, therefore, is subject to regulations related to their use, storage, discharge and disposal. No assurance can be made that the risk of accidental release of such materials can be completely eliminated. In the event of a violation of environmental laws, the Company could be held liable for damages and the costs of remediation. In addition, the Company, along with the rest of the semiconductor industry, is subject to variable interpretations and governmental priorities concerning environmental laws and regulations.

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

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. ENVIRONMENTAL LIABILITIES

In November 2013, the Company was named as a defendant in a Third Party Complaint filed in the United States District Court for the Northern District of New York. The Plaintiff in the lawsuit, the Clarkstown Landfill Joint Defense Group (“JDG”), alleged that the Company was liable for an equitable share of the JDG’s settlement payment to the New York State Department of Environmental Conservation (“NYSDEC”) in connection with response costs incurred by NYSDEC to remediate the Clarkstown Landfill Site, located in the Town of Clarkstown, New York. On May 23, 2014, the Company obtained an order from the United States Bankruptcy Court for the Southern District of Florida (“Court”) finding that the JDG’s claim against the Company was derivative of NYSDEC’s claim, and that NYSDEC’s claim had been discharged in the Court’s Final Order Confirming Debtor’s Fourth Amended Plan of Reorganization, entered on August 19, 1993. On June 2, 2014, the JDG filed a Notice of Voluntary Dismissal of its lawsuit against the Company.

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 | | For the nine months ended | |
|---|----------------------------|-----------|---------------------------|-----------|
| | November 30, | | November 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Weighted average common shares outstanding | 2,185,832 | 2,177,832 | 2,183,224 | 2,177,832 |
| Dilutive effect of employee stock options | 224,779 | 227,879 | 224,386 | 226,099 |
| Weighted average common shares outstanding, assuming dilution | 2,410,611 | 2,405,711 | 2,407,610 | 2,403,931 |

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 nine month periods ended November 30, 2014 and November 30, 2013, 0 shares underlying the Company's stock options were excluded from the calculation of diluted earnings 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.

These options could be dilutive in the future if the average share price increases and is greater than the exercise price of these options.

5. INVENTORIES

As of November 30, 2014, inventories consist of the following:

| | Gross | Reserve | Net |
|-----------------|-------------|---------------|-------------|
| Raw Materials | \$2,165,000 | \$(395,000) | \$1,770,000 |
| Work-In-Process | 3,530,000 | (1,347,000) | 2,183,000 |
| Finished Goods | 1,317,000 | (776,000) | 541,000 |
| Totals | \$7,012,000 | \$(2,518,000) | \$4,494,000 |

As of February 28, 2014, inventories consist of the following:

| | Gross | Reserve | Net |
|-----------------|-------------|---------------|-------------|
| Raw Materials | \$1,878,000 | \$(447,000) | \$1,431,000 |
| Work-In-Process | 3,103,000 | (1,292,000) | 1,811,000 |
| Finished Goods | 1,782,000 | (708,000) | 1,074,000 |
| Totals | \$6,763,000 | \$(2,447,000) | \$4,316,000 |

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS6. INCOME TAXES

At November 30, 2014, the Company has net operating loss carryforwards of approximately \$12,944,000 that expire through 2031. Such net operating losses are available to offset future taxable income, if any. As the utilization of such net operating losses for tax purposes is not assured, the deferred tax asset has been fully reserved through the recording of a 100% valuation allowance. Should a cumulative change in the ownership of more than 50% occur within a three-year period, there could be an annual limitation on the use of the net operating loss carryforwards.

Total net deferred taxes are comprised of the following at November 30, 2014 and February 28, 2014:

| Deferred Tax Asset (Liability): | 11/30/14 | 2/28/14 |
|-------------------------------------|-------------|-------------|
| Current | | |
| Allowance for doubtful accounts | \$1,000 | \$1,000 |
| Inventory allowance | 934,000 | 930,000 |
| Section 263A capitalized costs | 246,000 | 246,000 |
| Total current deferred tax assets | 1,181,000 | 1,177,000 |
| Valuation allowance | (1,181,000) | (1,177,000) |
| | \$0 | \$0 |
| Long-term | | |
| Loss carryforwards | \$4,572,000 | \$5,309,000 |
| Depreciation | (32,000) | (46,000) |
| Total long-term deferred tax assets | 4,540,000 | 5,263,000 |
| Valuation allowance | (4,540,000) | (5,263,000) |
| | \$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 period ended November 30, 2014 and the year ended February 28, 2014. A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate for the quarter ended November 30, 2014 and for the year ended February 28, 2014 is as follows:

| | 11/30/14 | 2/28/14 |
|-----------------------------|----------|---------|
| U.S. federal statutory rate | 34.0 % | 34.0 % |

| | | |
|-------------------------------|---------|---------|
| Change in valuation allowance | (34.0) | (34.0) |
| Alternative minimum taxes | 1.0 | 1.0 |
| Effective income tax rate | 1.0 % | 1.0 % |

7. OTHER INCOME

The \$6,000 of other income reflected in the unaudited condensed statements of income for the quarter ended November 30, 2014 consists of interest income on investment in treasury bills and certificates of deposit. The \$89,000 of other income reflected in the unaudited condensed statements of income for the quarter ended November 30, 2013 consists of \$77,000 of income from relief of obligation related to the Company's 1992 bankruptcy proceedings and \$12,000 of interest income on investment in treasury bills and certificates of deposit.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

As of November 30, 2014 and February 28, 2014, accrued expenses and other liabilities consisted of the following:

| | 11/30/14 | 2/28/14 |
|---------------------------------------|-----------|-----------|
| Payroll and related employee benefits | \$500,000 | \$539,000 |
| Income taxes | 11,000 | 15,000 |
| Property taxes | - | 7,000 |
| Other liabilities | 9,000 | 44,000 |
| | \$520,000 | \$605,000 |

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS9. EXPORT SALES AND MAJOR CUSTOMERS

Revenues from domestic and export sales to unaffiliated customers for the three months ended November 30, 2014 are as follows:

| Geographic Region | Power | | Field | Power | |
|--------------------------|-------------|-------------|-----------------------|------------|-------------|
| | Transistors | Hybrids | Effect Transistors | MOSFETS | Totals |
| Europe and Australia | \$ 2,000 | \$121,000 | \$ 0 | \$ 0 | \$123,000 |
| Canada and Latin America | 8,000 | 0 | 0 | 0 | 8,000 |
| Far East and Middle East | 0 | 0 | 16,000 | 106,000 | 122,000 |
| United States | 328,000 | 1,360,000 | 60,000 | 417,000 | 2,165,000 |
| Totals | \$ 338,000 | \$1,481,000 | \$ 76,000 | \$ 523,000 | \$2,418,000 |

Revenues from domestic and export sales to unaffiliated customers for the three months ended November 30, 2013 are as follows:

| Geographic Region | Power | | Field | Power | |
|--------------------------|-------------|-----------|-----------------------|------------|-------------|
| | Transistors | Hybrids | Effect Transistors | MOSFETS | Totals |
| Europe and Australia | \$ 0 | \$196,000 | \$ 0 | \$ 25,000 | \$221,000 |
| Canada and Latin America | 22,000 | 0 | 13,000 | 0 | 35,000 |
| Far East and Middle East | 0 | 0 | 0 | 47,000 | 47,000 |
| United States | 257,000 | 788,000 | 113,000 | 654,000 | 1,812,000 |
| Totals | \$ 279,000 | \$984,000 | \$ 126,000 | \$ 726,000 | \$2,115,000 |

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

For the quarter ended November 30, 2014, sales to the Company's top two customers consisted of the following:

| Customer | % of Sales |
|--------------------------|---------------|
| Raytheon Company | 48 % |
| United States Government | 15 % |
| | 63 % |

For the quarter ended November 30, 2013, sales to the Company's top two customers consisted of the following:

| Customer | % of Sales |
|-----------------------|---------------|
| Raytheon Company | 67 % |
| BAE Systems Australia | 9 % |
| | 76 % |

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

10. MAJOR SUPPLIERS

For the quarter ended November 30, 2014, purchases from the Company's top two vendors consisted of the following:

| Vendor | % of Purchases | |
|---------------------------------|----------------|---|
| Egide, USA | 17 | % |
| Eastern States Components, Inc. | 11 | % |
| | 28 | % |

For the quarter ended November 30, 2013, purchases from the Company's top two vendors consisted of the following:

| Vendor | % of Purchases | |
|--------------------|----------------|---|
| Egide, USA | 37 | % |
| Air Products, Inc. | 9 | % |
| | 46 | % |

11. COMMITMENTS AND CONTINGENCIES

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

| Fiscal Year Ending February 28/29 | Amount |
|-----------------------------------|---------|
| 2015 | 102,000 |
| 2016 | 415,000 |
| 2017 | 428,000 |
| 2018 | 441,000 |
| 2019 | 454,000 |
| 2020 | 468,000 |
| 2021 | 482,000 |

2022

411,000
\$3,201,000

12. PAYMENT OF DIVIDEND

On June 24, 2014, the Company paid a cash dividend of \$.05 per share of common stock to stockholders of record as of the close of business on June 9, 2014.

11

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENT

13. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the interim financial statement for August 31, 2014 the Company identified an error in the recorded value of one device in the Company's work in process inventory. To correct this error and make the corresponding adjustments to other items in the Company's financial statements and the corresponding revisions to related disclosure, the Company restated certain line items in the unaudited consolidated financial statements.

The following summarizes the impact of the restatement on the affected line items in the Condensed Balance Sheet as of August 31, 2014 (Unaudited, in thousands):

| | Condensed Balance Sheet as of August 31, 2014 | | |
|--|--|-------------|----------------|
| | As Previously | | |
| | Reported | Adjustments | As Restated |
| Inventories, net | \$4,929 | \$ (449) | \$ 4,480 |
| Total Current Assets | 12,873 | (449) | 12,424 |
| Total Assets | 13,376 | (449) | 12,927 |
| Retained Earnings | 9,943 | (449) | 9,494 |
| Total Stockholders' Equity | 12,454 | (449) | 12,005 |
| Total Liabilities and Stockholders' Equity | 13,376 | (449) | 12,927 |

The following summarizes the impact of the restatement on the affected line items in the Condensed Statements of Income for the three and six months ended August 31, 2014 (Unaudited, in thousands except for per share amounts):

Condensed Statement of Income
for the
Three Months Ended August 31,
2014
As
Previously
Reported Adjustments

Edgar Filing: SOLITRON DEVICES INC - Form 10-Q

| | | | As Restated |
|--|---------|--------|----------------|
| Cost of Sales | \$1,218 | \$ 449 | \$ 1,667 |
| Gross Profit | 1,087 | (449) |) 638 |
| Operating Income | 701 | (449) |) 252 |
| Income before provision for income taxes | 703 | (449) |) 254 |
| Net income | 700 | (449) |) 251 |
| Total comprehensive income | 701 | (449) |) 252 |
| Income Per Share from operating income - Basic | .32 | (.20) |) .12 |
| Income Per Share from operating income - Diluted | .29 | (.19) |) .10 |
| Net Income Per Share - Basic | .32 | (.20) |) .12 |
| Net Income Per Share - Diluted | .29 | (.19) |) .10 |

12

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

| | Condensed Statement of Income for the Six Months Ended August 31, 2014 | | |
|--|---|-------------|----------------|
| | As Previously | | |
| | Reported | Adjustments | As Restated |
| Cost of Sales | \$3,032 | \$ 449 | \$ 3,481 |
| Gross Profit | 1,578 | (449) | 1,129 |
| Operating Income | 856 | (449) | 407 |
| Income before provision for income taxes | 870 | (449) | 421 |
| Net income | 863 | (449) | 414 |
| Total comprehensive income | 863 | (449) | 414 |
| Income Per Share from operating income - Basic | .39 | (.20) | .19 |
| Income Per Share from operating income - Diluted | .36 | (.19) | .17 |
| Net Income Per Share - Basic | .40 | (.21) | .19 |
| Net Income Per Share - Diluted | .36 | (.19) | .17 |

The following summarizes the impact of the restatement on the affected line items in the Condensed Statements of Cash Flows for the six months ended August 31, 2014 (Unaudited, in thousands):

| | Condensed Statements of Cash Flow for Six Months Ended August 31, 2014 | | |
|---------------------------------------|---|-------------|----------------|
| | As Previously | | |
| | Reported | Adjustments | As Restated |
| Cash Flows from Operating Activities: | | | |
| Net income | \$863 | \$ (449) | \$ 414 |
| Inventories, net | (613) | 449 | (164) |
| Total Adjustments | (181) | 449 | 268 |

Item 2. Management's Discussion and Analysis of FINANCIAL CONDITION AND RESULTS of operations

Overview:

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

The following discussion and analysis of factors which have affected the Company's financial position and operating results during the periods included in the accompanying unaudited condensed financial statements should be read in conjunction with the Financial Statements and the related Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended February 28, 2014 and the unaudited 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 unaudited condensed financial statements included in 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 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 28, 2014.

Trends and Uncertainties:

During the three months ended November 30, 2014, the Company's book-to-bill ratio was approximately .86 as compared to approximately .81 for the three months ended November 30, 2013, reflecting an increase in the volume

of orders booked. The Company does not believe that, in most years, the year-to-year change in the book-to-bill ratio indicates a specific trend in the demand for the Company's products. Generally, the intake of orders over the last twenty-four months has varied greatly as a result of the fluctuations in the general economy, variations in defense spending on programs the Company supports, and the timing of contract awards by the Department of Defense and subsequently by its prime contractors, which is expected to continue over the next twelve to twenty-four months. 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.

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, 2014 Compared to Three Months Ended November 30, 2013:

Net sales for the three months ended November 30, 2014 increased 14% to \$2,418,000 as compared to \$2,115,000 for the three months ended November 30, 2013. This increase was primarily attributable to an increase in the value of orders that were shipped in accordance with customer requirements.

Cost of sales for the three months ended November 30, 2014 increased to \$1,811,000 from \$1,428,000 for the three months ended November 30, 2013, primarily due to higher raw material purchase costs and lower production yields. Expressed as a percentage of sales, cost of sales increased to 75% from 68% for the same period in 2013. This increase in percentage was due primarily to higher raw material purchase costs and lower production yields, a higher amount of net sales, and product mix.

Gross profit for the three months ended November 30, 2014 decreased to \$607,000 from \$687,000 for the three months ended November 30, 2013, primarily due to higher raw material purchase costs and lower production yields as mentioned above. Accordingly, gross margins on the Company's sales decreased to 25% for the three months ended November 30, 2014 in comparison to 32% for the three months ended November 30, 2013.

For the three months ended November 30, 2014, the Company shipped 23,687 units as compared to 21,634 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 per unit 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, 2014, the Company's backlog of open orders decreased 5% to \$6,417,000 as compared to the backlog of open orders of \$6,749,000 as of August 31, 2014. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company has experienced an increase of 21% to \$2,083,000 in the level of bookings during the three months ended November 30, 2014 as compared to the same period in the prior year. The increase in bookings for the three months ended November 30, 2014 is principally 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 decreased to \$343,000 for the three months ended November 30, 2014 from \$413,000 for the same period in the prior year. The decrease reflects lower legal fees and recruiting fees which was partially offset by higher commission and labor expenses. During the three months ended November 30, 2014, selling, general, and administrative expenses as a percentage of net sales decreased to 14% as compared to 20% for the three months ended November 30, 2013.

Operating income for the three months ended November 30, 2014 decreased to \$264,000 as compared to \$274,000 for the three months ended November 30, 2013. This decrease is due primarily to higher raw material purchase costs and lower production yields which was partially offset by a higher amount of net sales, and product mix.

The Company recorded other income of \$6,000 for the three months ended November 30, 2014 as compared to \$89,000 for the three months ended November 30, 2013. Other income for the three months ended November 30, 2014 includes \$6,000 of interest income on investment in treasury bills and certificates of deposit. Other income for the three months ended November 30, 2013 includes \$77,000 of income from relief of obligation and \$12,000 of interest income on investment in treasury bills and certificates of deposit.

Net income for the three months November 30, 2014 decreased to \$258,000 as compared to \$360,000 for the same period in 2013. This decrease is due primarily to a decrease in total other income, specifically from relief of obligation and interest income, and higher raw material purchase costs and lower production yields.

Results of Operations-Nine months Ended November 30, 2014 Compared to Nine months Ended November 30, 2013:

Net sales for the nine months ended November 30, 2014 increased 9% to \$7,028,000 as compared to \$6,432,000 for the nine months ended November 30, 2013. This increase was primarily attributable to an increase in the value of orders that were shipped in accordance with customer requirements.

Cost of sales for the nine months ended November 30, 2014 increased to \$5,292,000 from \$4,645,000 for the nine months ended November 30, 2013, primarily due to higher raw material purchase costs and lower production yields. Expressed as a percentage of sales, cost of sales increased to 75% as compared to 72% for the same period in 2013. This increase in percentage was due primarily to higher raw material purchase costs and lower production yields combined with a higher amount of net sales, and product mix.

Gross profit for the nine months ended November 30, 2014 decreased to \$1,736,000 from \$1,787,000 for the nine months ended November 30, 2013, primarily due to higher raw material purchase costs and lower production yields as mentioned above. Gross margins on the Company's sales decreased to 25% as compared to 28% for the same period in 2013.

For the nine months ended November 30, 2014, the Company shipped 68,563 units as compared to 77,655 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 per unit 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, 2014, the Company's backlog of open orders decreased 21% to \$6,417,000 as compared to backlog of open orders of \$8,170,000 as of February 28, 2014. The Company's backlog of \$6,417,000 as of November 30, 2014 was 12% higher as compared to the backlog of open orders of \$5,733,000 as of November 30, 2013. 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 17% to \$5,273,000 in the level of bookings during the nine months ended November 30, 2014 when compared with the nine months ended November 30, 2013. The increase occurred principally 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 decreased to \$1,065,000 for the nine months ended November 30, 2014 from \$1,180,000 for the same period in the prior year, primarily due to lower legal fees and lower recruiting fees which was partially offset by higher commission and labor expenses. During the nine months ended November 30, 2014, selling, general, and administrative expenses as a percentage of net sales decreased to 15% as compared to 18% for the nine months ended November 30, 2013.

Operating income for the nine months ended November 30, 2014 increased to \$671,000 from \$607,000 for the nine months ended November 30, 2013. This increase is due primarily to a higher amount of net sales and lower selling, general, and administrative expenses as described above.

The Company recorded other income of \$20,000 for the nine months ended November 30, 2014 as compared to other income of \$191,000 for the nine months ended November 30, 2013. Included in other income for the nine months ended November 30, 2014 was \$12,000 of interest income on investment in treasury bills and certificates of deposit and \$8,000 of income from relief of obligation. Included in other income for the nine months ended November 30, 2013 was \$167,000 of income from relief of obligation and \$28,000 of interest income on investment in treasury bills and certificates of deposit partially offset by \$4,000 of other expense.

Net income for the nine months ended November 30, 2014 decreased to \$672,000 from \$789,000 for the same period in 2013. This decrease is due primarily to a decrease in total other income, specifically lower income from relief of obligation and lower interest income.

Liquidity and Capital Resources:

Operating Activities:

Net cash provided by operating activities was \$766,000 for the nine months ended November 30, 2014 primarily reflecting net income of \$672,000 plus a \$105,000 decrease in accounts receivable.

Net cash provided by operating activities was \$296,000 for the nine months ended November 30, 2013 primarily reflecting net income of \$782,000 offset by an increase of \$483,000 to net inventories.

Investing Activities:

Net cash used in investing activities was \$799,000 for the nine months ended November 30, 2014 primarily reflecting \$4,769,000 in sales of treasury bills and certificates of deposit, \$5,478,000 in investments in certificates of deposit, and \$90,000 in purchases of property, plant and equipment.

Net cash used in investing activities was \$1,216,000 for the nine months ended November 30, 2013 primarily reflecting \$1,799,000 in sales of treasury bills and certificates of deposit, \$2,831,000 in investments in treasury bills and certificates of deposit, and \$184,000 in purchases of property, plant and equipment.

Financing Activities:

Net cash used in financing activities was \$103,000 for the nine months ended November 30, 2014 primarily reflecting a \$109,000 dividend paid to shareholders offset by \$6,000 from stock option exercises by a Company employee.

There was no cash used in financing activities for the nine months ended November 30, 2013.

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 \$75,000 during the balance of the current fiscal year and will be funded from operations.

Based upon (i) management's best information as to current national defense priorities, future defense programs, as well as management's expectations as to future defense spending, (ii) the market trends signaling a 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. 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 activities to assure its continued profitability.

Over the long-term, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company believes that it will generate sufficient cash from operations to satisfy its operating needs over the next twelve months. In the event that bookings in the long-term decline significantly below the level experienced during the previous two fiscal years, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. In appropriate situations, the Company may seek strategic alliances 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, 2014, February 28, 2014 and November 30, 2013, the Company had cash and cash equivalents of approximately \$489,000, \$625,000 and \$377,000, respectively. The cash decrease for the nine months ended November 30, 2014 was primarily due to the purchase of certificates of deposit.

At November 30, 2014, February 28, 2014 and November 30, 2013, the Company had investments in treasury bills and certificates of deposit of approximately \$6,970,000, \$6,261,000 and \$6,205,000, respectively.

At November 30, 2014, the Company had working capital of \$11,774,000 as compared with a working capital at November 30, 2013 of \$10,964,000. At February 28, 2014, the Company had a working capital of \$11,128,000. The \$646,000 increase for the nine months ended November 30, 2014 was due primarily to the \$672,000 of 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 28, 2014, as supplemented by those described under the caption "Risk Factors" in this Quarterly Report on Form 10-Q for the quarter ended November 30, 2014, 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:

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.

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

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could seriously harm our business.

Provisions in our charter documents and rights agreement could make it more difficult to acquire our Company and may reduce the market price of our stock.

Natural disasters, like hurricanes, or occurrences of other natural disasters whether in the United States or internationally may affect the markets in which our common stock trades, the markets in which we operate and our profitability.

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

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

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

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

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

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Our Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible 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 quarterly period ended November 30, 2014. Based on that evaluation and solely as a result of the material weakness in the Company's internal control over financial reporting described below, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of November 30, 2014. As discussed below, management has implemented a remediation plan to remediate the material weakness and address the effectiveness of the Company's disclosure controls and procedures.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The deficiency described below was identified in connection with the restatement of the Company's financial statements for the quarterly period ended August 31, 2014 and disclosed in the amended quarterly report filed on January 9, 2015 (the "Form 10-Q/A"). As further disclosed in the Form 10-Q/A and as set forth below, management has taken and continues to take steps to remediate the control deficiency described below, and the Company has performed additional analyses and other procedures to enable management to conclude that the Company's condensed financial statements included in this report fairly present, in all material respects, the Company's financial condition and results of operations as of and for the period ended November 30, 2014.

Material Weakness

The Company's management identified and reported to the Audit Committee the following control deficiency in the Company's internal control over financial reporting as of August 31, 2014:

The Company concluded that certain controls over period-end work in process inventory accounting of work-in-process did not operate with sufficient precision. Specifically, a misstatement was detected relating to inventory valuation as a result of an undetected data entry error with respect to the cost per unit of one device that was manually entered and applied to all the units of such device in work in process inventory as of August 31, 2014. The manual input of the quantity of units on hand and the cost entry per unit was not verified by a second person. This control deficiency resulted in misstatements of the Company's work in process inventory and as a result of other items, including total assets, cost of sales and net income. This control deficiency, if not remediated, could result in further misstatement to the valuation of work in process inventory that would result in material misstatement to future annual or interim condensed financial statements that would not be prevented or detected. Accordingly, management has concluded that this control efficiency constitutes a material weakness.

Remediation Plan

Management and the Board of Directors are committed to the continued improvement of the Company's overall system of internal control over financial reporting. Management believes the remediation measures described below will remediate the identified control deficiency and strengthen the Company's internal control over financial reporting.

Management has implemented the following measures to remediate the internal control deficiency:

The review and verification of all manually entered data with respect to the valuation of work in process inventory by a second person with an appropriate level of accounting knowledge, experience and training; and

Automatic data/price verification procedures such as the lower of cost or market value testing.

Management is also in the process of identifying any additional measures that may result in additional remediation measures that will be implemented, including measures relating to the Company's training and oversight policies.

Changes in Internal Control over Financial Reporting

Other than as noted above in this Item 4, there has been no change in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II– OTHER INFORMATION

ITEM 1A. RISK FACTORS:

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

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act. As discussed in Part I – Item 4, we identified a material weakness in the operation of the Company's internal control over financial reporting as of August 31, 2014. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness relates to inventory valuation of the Company's work in process inventory. Solely as a result of this material weakness, management concluded that the Company's disclosure controls and procedures were not effective as of August 31, 2014.

As discussed in Part I – Item 4 we have implemented remediation measures and we are in the process of identifying any additional appropriate remediation measures. There is the potential that our remediation efforts may not be successful. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we fail to complete our remediation plan in a timely fashion, or at all, or if our remediation plan is inadequate or we encounter difficulties in the implementation or maintenance of our internal control over financial reporting or disclosure controls and procedures, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC. In addition, any failure to implement our remediation plan or any difficulties we encounter with our remediation plan could result in additional material weaknesses or deficiencies in our internal control or future material misstatements in our annual or interim financial statements. Further, if any other material weakness or deficiency in our internal control exist and go undetected, our financial statements could contain material misstatements that, when discovered in the future, could cause us to fail to meet our future reporting obligations. Moreover, our failure to remediate the material weakness identified above or the identification of additional material weaknesses, could adversely affect our stock price and investor confidence.

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.**

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

22

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 20, 2015

/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.** |
| 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