

SOLITRON DEVICES INC
Form 10-Q
October 15, 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 August 31, 2015

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)

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

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

(561) 848-4311

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of September 30, 2015 was 2,298,004.

SOLITRON DEVICES, INC.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	Page No.
Item 1. Financial Statements	
Condensed Balance Sheets August 31, 2015 (unaudited) and February 28, 2015	2
Condensed Statements of Operations (unaudited) Three and Six Months Ended August 31, 2015 and 2014	3
Condensed Statements of Cash Flows (unaudited) Six Months Ended August 31, 2015 and 2014	4
Notes to Condensed Financial Statements	5-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-17
Item 4. Controls and Procedures	18

PART II – OTHER INFORMATION

Item 1. Legal Proceedings	19
Item 5. Other Information	19
Item 6. Exhibits	19
Signatures	20

PART I – FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS

SOLITRON DEVICES, INC.

CONDENSED BALANCE SHEETS

AS OF AUGUST 31, 2015 AND FEBRUARY 28, 2015

	(unaudited)	
	August	February
	31,	28,
	2015	2015
	(in thousands, except for share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$446	\$820
Treasury bills and certificates of deposit	6,710	6,971
Accounts receivable, less allowance for doubtful accounts of \$2	931	1,018
Inventories, net (Note 4)	3,900	4,197
Prepaid expenses and other current assets	172	123
TOTAL CURRENT ASSETS	12,159	13,129
PROPERTY, PLANT AND EQUIPMENT, net	471	458
OTHER ASSETS	8	8
TOTAL ASSETS	\$12,638	\$13,595
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable – Post-petition	\$259	\$425
Customer deposits	24	20
Accrued expenses and other liabilities (Note 7)	542	632
TOTAL CURRENT LIABILITIES	825	1,077
TOTAL LIABILITIES	825	1,077
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		

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Preferred stock, \$.01 par value, authorized 500,000 shares, none issued	-	-
Common stock, \$.01 par value, authorized 10,000,000 shares, 2,571,234 and 2,298,004 shares issued and outstanding, net of 273,230 shares of treasury stock as of August 31, 2015 and 2,459,062 and 2,185,832 shares issued and outstanding, net of 273,230 shares of treasury stock as of February 28, 2015, respectively	24	23
Additional paid-in capital	2,759	2,749
Accumulated other comprehensive income	15	15
Retained earnings	9,290	10,006
Less treasury stock	(275)	(275)
TOTAL STOCKHOLDERS' EQUITY	11,813	12,518
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$12,638	\$13,595

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

SOLITRON DEVICES, INC.

CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2015 AND AUGUST 31, 2014

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

	Three months		Six Months	
	2015	2014	2015	2014
Net Sales	\$2,212	\$2,305	\$4,595	\$4,610
Cost of Sales	1,646	1,667	3,527	3,481
Gross Profit	566	638	1,068	1,129
Selling, General and Administrative Expenses	755	386	1,222	722
Operating (Loss)/Income	(189)	252	(154)	407
Other income (Note 6)				
Other income	-	-	-	8
Interest Income	4	2	12	6
Total other income	4	2	12	14
(Loss)/Income before provision for income taxes	(185)	254	(142)	421
Provision for income taxes	7	(3)	-	(7)
Net (Loss)/Income	\$(178)	\$251	\$(142)	\$414
Other comprehensive income:				
Unrealized (loss)/gain on investments	-	1	-	-
Total comprehensive (loss)/income	\$(178)	\$252	\$(142)	\$414
(Loss)/Income Per Share from operating income-Basic	\$(.08)	\$.12	\$(.07)	\$.19
(Loss)/Income Per Share from operating income-Diluted	\$(.08)	\$.10	\$(.07)	\$.17
Net (Loss)/Income Per Share-Basic	\$(.08)	\$.12	\$(.06)	\$.19
Net (Loss)/Income Per Share-Diluted	\$(.08)	\$.10	\$(.06)	\$.17
Weighted average shares outstanding-Basic	2,271,491	2,185,832	2,229,312	2,181,920
Weighted average shares outstanding-Diluted	2,271,491	2,410,081	2,229,312	2,406,110

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

SOLITRON DEVICES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED AUGUST 31, 2015 AND AUGUST 31, 2014

(Unaudited)

	2015	2014
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$(142)	\$414
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	105	113
Decrease (increase) in operating assets:		
Accounts receivable	88	400
Inventories, net	297	(164)
Prepaid expenses and other current assets	(49)	14
Other assets	-	(3)
Increase (decrease) in operating liabilities:		
Accounts payable – Post-petition	(166)	78
Accounts payable – Pre-petition	-	(8)
Customer deposits	4	3
Accrued expenses and other liabilities	(96)	(165)
NET CASH PROVIDED BY OPERATING ACTIVITIES	41	682
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of Treasury Bills and Certificates of Deposit	3,154	2,777
Purchases of Treasury Bills and Certificates of Deposit	(2,893)	(3,236)
Purchases of property, plant and equipment	(119)	(47)
NET CASH PROVIDED BY/USED IN INVESTING ACTIVITIES	142	(506)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net cash from exercise of employee stock options	18	6
Payment of Dividends	(575)	(109)
NET CASH USED IN FINANCING ACTIVITIES	(557)	(103)
Net (decrease)/increase in cash and cash equivalents	(374)	73
Cash and cash equivalents – beginning of the period	820	625
Cash and cash equivalents – end of the period	\$446	\$698

Supplemental disclosure of cash flow information:

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Cash paid during the year for income taxes	\$4	\$0
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The accompanying notes are an integral part of the unaudited condensed financial statements.

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities

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

Basis of Presentation

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

The unaudited condensed financial information furnished herein reflects all adjustments, consisting of normal recurring items that, in the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. The results of operations for the six months ended August 31, 2015 are not necessarily indicative of the results to be expected for the year ending February 29, 2016.

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, 2015.

Cash and Cash Equivalents

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

Investment in Treasury Bills and Certificates of Deposit

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

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

The following table summarizes the total face value of treasury bills and certificates of deposit.

<u>Total Face Value as of</u>	
<u>August 31, 2015 (in</u>	
<u>thousands)</u>	
Treasury bills	\$ 1,399
Certificates of deposit	5,313
	\$6,712

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

As of August 31, 2015, 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	\$ 5,313	\$ 5,314
Maturing within two years	1,399	1,396
	\$ 6,712	\$ 6,710

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 August 31, 2015 and February 28, 2015.

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. EARNINGS PER SHARE

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

	For the three months ended August 31,		For the six months ended August 31,	
	2015	2014	2015	2014
Weighted average common shares outstanding	2,271,491	2,185,832	2,229,312	2,181,920
Dilutive effect of employee stock options	0	224,249	0	224,190
Weighted average common shares outstanding, assuming dilution	2,271,491	2,410,081	2,229,312	2,406,110

Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options.

4. INVENTORIES

As of August 31, 2015, inventories consist of the following:

	Gross	Reserve	Net
Raw Materials	\$2,022,000	\$(472,000)	\$1,550,000
Work-In-Process	3,708,000	(1,668,000)	2,040,000
Finished Goods	1,079,000	(769,000)	310,000
Totals	\$6,809,000	\$(2,909,000)	\$3,900,000

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As of February 28, 2015, inventories consist of the following:

	Gross	Reserve	Net
Raw Materials	\$2,124,000	\$(404,000)	\$1,720,000
Work-In-Process	3,744,000	(1,624,000)	2,120,000
Finished Goods	1,077,000	(720,000)	357,000
Totals	\$6,945,000	\$(2,748,000)	\$4,197,000

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS5. INCOME TAXES

At August 31, 2015, the Company has net operating loss carryforwards of approximately \$11,701,000 that expire through February 2029. 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 August 31, 2015 and February 28, 2015:

Deferred Tax Asset (Liability):	August 31,	February
Current	2015	28,
Allowance for doubtful accounts	\$1,000	2015
Inventory allowance	1,166,000	\$1,000
Section 263A capitalized costs	96,000	1,044,000
Total current deferred tax assets	1,263,000	85,000
Valuation allowance	(1,263,000)	1,130,000
	\$0	(1,130,000)
		\$0
Long-term		
Loss carryforwards	\$3,959,000	\$3,959,000
Depreciation	25,000	(31,000)
Total long-term deferred tax assets	3,984,000	3,928,000
Valuation allowance	(3,984,000)	(3,928,000)
	\$0	\$0

The change in the valuation allowance on deferred tax assets is due principally to the changes between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate for the quarter ended August 31, 2015 and for the year ended February 28, 2015 is as follows:

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	August 31, 2015	February 28, 2015		
U.S. federal statutory rate	34.0 %	34.0 %		
Change in valuation allowance	(34.0)	(34.0)		
Alternative minimum taxes	-	2.0		
Effective income tax rate	0 %	2.0 %		

6. OTHER INCOME

The Company did not earn other income for the six months ended August 31, 2015 as compared to \$8,000 of other income for the six months ended August 31, 2014. The \$8,000 of other income reflected in the unaudited condensed statements of operations for the six months ended August 31, 2014 consists of income from relief of obligation related to the Company's 1992 bankruptcy proceedings.

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS7. ACCRUED EXPENSES AND OTHER LIABILITIES

As of August 31, 2015 and February 28, 2015, accrued expenses and other liabilities consisted of the following:

	August 31, 2015	February 28, 2015
Payroll and related employee benefits	\$445,000	\$575,000
Income taxes	10,000	15,000
Property taxes	29,000	7,000
Other liabilities	58,000	35,000
	\$542,000	\$632,000

8. EXPORT SALES AND MAJOR CUSTOMERS

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

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

Revenues from domestic and export sales to unaffiliated customers for the three months ended August 31, 2014 are as follows:

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Geographic Region	Power		Field Effect	Power	
	Transistors	Hybrids	Transistors	MOSFETS	Totals
Europe and Australia	\$ 0	\$453,000	\$ 0	\$ 0	\$453,000
Far East and Middle East	4,000	0	3,000	194,000	201,000
United States	337,000	788,000	51,000	475,000	1,651,000
Totals	\$ 341,000	\$1,241,000	\$ 54,000	\$ 669,000	\$2,305,000

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

Customer	% of Sales	
Raytheon Company	40	%
Lockheed Martin Corporation	27	%
	67	%

For the quarter ended August 31, 2014, sales to the Company's top two customers consisted of the following:

Customer	% of Sales	
Raytheon Company	46	%
BAE Systems Australia	20	%
	66	%

SOLITRON DEVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS9. MAJOR SUPPLIERS

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

Vendor	% of Purchases	
Sintermetalglass	23	%
Egide, USA	22	%
	45	%

For the quarter ended August 31, 2014, purchases from the Company's top two vendors consisted of the following:

Vendor	% of Purchases	
Egide, USA	29	%
Wuxi Streamtek Ltd.	12	%
	41	%

10. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year Ending February 28/29	Amount
2016	\$ 209,000
2017	427,000
2018	440,000
2019	454,000
2020	467,000
Thereafter	893,000
	\$ 2,890,000

11. PAYMENT OF DIVIDEND

On July 22, 2015, the Company paid a cash dividend of \$.25 per share of common stock to stockholders of record as of the close of business on June 29, 2015.

12. STOCK REPURCHASE PROGRAM

On May 29, 2015, the Company announced that its Board of Directors authorized a stock repurchase program under which the Company may repurchase up to \$500,000 of its outstanding common stock from time to time through February 29, 2016 on the open market or in privately negotiated transactions as determined by the Company's management and in accordance with the requirements of the Securities and Exchange Commission.

On July 28, 2015, the Company announced that its Board of Directors had expanded the stock repurchase program to cover repurchases of up to \$1,000,000 of its outstanding common stock from time to time through February 29, 2016 on the open market or in privately negotiated transactions as determined by the Company's management and in accordance with the requirements of the Securities and Exchange Commission. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other conditions.

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

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, 2015 and the Unaudited Condensed Financial Statements and the related Notes to Unaudited Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the unaudited condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q which are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies include cash and cash equivalents, investment in Treasury bills and Certificates of Deposit, revenue recognition, earnings per common share, shipping and handling, and inventories. A discussion of these critical accounting policies are included in Note 1 of the "Notes To Financial Statements" in Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 28, 2015.

Trends and Uncertainties:

During the three months ended August 31, 2015, the Company's book-to-bill ratio was approximately .18 as compared to approximately .43 for the three months ended August 31, 2014, 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. 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. During the 2nd quarter ended August 31, 2015, the Company was advised by certain of its key customers that they are currently experiencing delays in receiving contract awards from the U.S. government and delays in foreign military sales, and they anticipate these delays may continue into the first quarter of calendar year 2016. The Company expects these delays may continue to impact the Company's level of bookings over the corresponding period. The Company continues to identify means intended to reduce its variable manufacturing costs to offset the potential impact of a lower volume of orders to be shipped. However, should order intake continue to fall drastically in the coming periods, the Company might be required to implement further cost cutting or other downsizing measures in order to generate net income instead of net losses.

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.

Results of Operations-Three Months Ended August 31, 2015 Compared to Three Months Ended August 31, 2014:

Net sales for the three months ended August 31, 2015 decreased 4% to \$2,212,000 as compared to \$2,305,000 for the three months ended August 31, 2014. This decrease was primarily attributable to a decrease in the value of orders that were shipped in accordance with customer requirements as well as a decrease in the number of units.

Cost of sales for the three months ended August 31, 2015 decreased to \$1,646,000 from \$1,667,000 for the three months ended August 31, 2014, mostly due to lower purchases of raw materials. Expressed as a percentage of net sales, cost of sales increased to 74% for the three months ended August 31, 2015 from 72% for the three months ended August 31, 2014.

Gross profit for the three months ended August 31, 2015 decreased to \$566,000 from \$638,000 for the three months ended August 31, 2014, due primarily to lower net sales. Accordingly, gross margins on the Company's net sales decreased to 26% for the three months ended August 31, 2015 in comparison to 28% for the three months ended August 31, 2014.

For the three months ended August 31, 2015, the Company shipped 20,623 units as compared to 21,294 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.

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For the three months ended August 31, 2015, the Company's backlog of open orders decreased 28% to \$4,588,000 as compared to the backlog of \$6,393,000 as of May 31, 2015. The Company's backlog as of August 31, 2015 is 32% lower than the backlog 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 a decrease of 59% to \$408,000 in the level of bookings during the three months ended August 31, 2015 as compared to \$996,000 for the same period in the prior year. The decrease in bookings for the three months ended August 31, 2015 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 increased to \$755,000 for the three months ended August 31, 2015 from \$386,000 for the same period in the prior year. The increase reflects mostly higher legal fees associated with the proxy contest the company experienced in connection with its 2015 annual stockholders' meeting, increased expenses associated with holding such annual stockholders' meeting, and higher sales commissions. During the three months ended August 31, 2015, selling, general and administrative expenses as a percentage of net sales increased to 34% as compared to 17% for the three months ended August 31, 2014.

Operating income for the three months ended August 31, 2015 decreased 175% to an operating loss of \$189,000 as compared to operating income of \$252,000 for the three months ended August 31, 2014. This decrease is due primarily to higher selling, general and administrative expenses and lower net sales as described above.

Interest income for the three months ended August 31, 2015 increased to \$4,000 as compared to \$2,000 for the three months ended August 31, 2014. This increase is due primarily to a higher rate of return on funds invested in certificates of deposit and treasury bills.

The Company had no other income for the three months ended August 31, 2015 and the three months ended August 31, 2014.

Net income for the three months ended August 31, 2015 decreased 171% to a net loss of \$178,000 as compared to net income of \$251,000 for the three months ended August 31, 2014. This decrease is due primarily to an increase in selling, general and administrative expenses and a decrease in net sales as described above.

Results of Operations-Six Months Ended August 31, 2015 Compared to Six Months Ended August 31, 2014:

Net sales for the six months ended August 31, 2015 remained relatively flat at \$4,595,000 as compared to \$4,610,000 for the six months ended August 31, 2014. This was primarily attributable to the value of the orders that were shipped in accordance with customer requirements during the six months ended August 31, 2015.

Cost of sales for the six months ended August 31, 2015 increased to \$3,527,000 from \$3,481,000 for the six months ended August 31, 2014, mostly due to a shift in the mix of products manufactured from manufacturing hybrids to manufacturing mosfets and discrettes which have a higher cost basis. Expressed as a percentage of net sales, cost of sales increased to 77% for the six months ended August 31, 2015 from 76% for the six months ended August 31, 2014.

Gross profit for the six months ended August 31, 2015 decreased to \$1,068,000 from \$1,129,000 for the six months ended August 31, 2014, due primarily to a higher cost of sales and lower net sales. Accordingly, gross margins on the Company's sales decreased to 23% for the six months ended August 31, 2015 in comparison to 24% for the six months ended August 31, 2014.

For the six months ended August 31, 2015, the Company shipped 40,427 units as compared to 44,876 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.

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For the six months ended August 31, 2015, the Company's backlog of open orders decreased 36% to \$4,588,000 as compared to the backlog of open orders of \$7,176,000 as of February 28, 2015. The Company's backlog of \$4,588,000 as of August 31, 2015 was 32% lower as compared to the backlog of open orders of \$6,749,000 as of August 31, 2014. Changes in backlog resulted from changes in the intake of orders and in the delivery dates required by customers.

The Company has experienced a decrease of 37% to \$1,997,000 in the level of bookings during the six months ended August 31, 2015 when compared to \$3,190,000 during the six months ended August 31, 2014. The decrease occurred principally as a result of decreases 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 increased to \$1,222,000 for the six months ended August 31, 2015 from \$722,000 for the same period in the prior year, primarily due to higher legal fees associated with the proxy contest the company experienced in connection with its 2015 annual stockholders' meeting, increased expenses associated with holding such annual stockholders' meeting, and higher sales commissions. During the six months ended August 31, 2015, selling, general and administrative expenses as a percentage of net sales increased to 27% as compared to 16% for the six months ended August 31, 2014.

Operating income for the six months ended August 31, 2015 decreased 138% to an operating loss of \$154,000 as compared to operating income of \$407,000 for the six months ended August 31, 2014. This decrease is due primarily to higher selling, general and administrative expenses and higher cost of sales as described above.

The Company recorded other income of \$12,000 for the six months ended August 31, 2015 as compared to other income of \$14,000 for the six months ended August 31, 2014. Included in other income for the six months ended August 31, 2015 was \$12,000 of interest income on investment in treasury bills and certificates of deposit. Included in other income for the six months ended August 31, 2014 was \$8,000 of income from relief of obligation related to the Company's 1992 bankruptcy proceedings and \$6,000 of interest income on investment in treasury bills and certificates of deposit.

Net income for the six months ended August 31, 2015 decreased to a net loss of \$142,000 from net income of \$414,000 for the same period in 2014. This decrease is due primarily to higher cost of sales and an increase in selling, general and administrative expenses as described above.

Liquidity and Capital Resources:

Operating Activities:

Net cash provided by operating activities was \$48,000 for the six months ended August 31, 2015 primarily reflecting a net loss of \$142,000 and a decrease in accounts payable of \$166,000 offset by depreciation and amortization of \$105,000 and a decrease in inventory of \$297,000.

Net cash provided by operating activities was \$682,000 for the six months ended August 31, 2014 primarily reflecting net income of \$414,000, depreciation and amortization of \$113,000, and accounts receivable of \$400,000 offset by an increase in inventory of \$164,000.

Investing Activities:

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

Net cash used in investing activities was \$506,000 for the six months ended August 31, 2014 primarily reflecting \$2,777,000 in sales of treasury bills and certificates of deposit, \$3,236,000 in investments in certificates of deposit and \$47,000 in purchases of property, plant and equipment.

Financing Activities:

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

Net cash used in financing activities was \$103,000 for the six months ended August 31, 2014 primarily reflecting a \$109,000 dividend paid to stockholders offset by \$6,000 from stock option exercises by the Company's employees.

Subject to the following discussion, the Company expects its sole source of liquidity over the next twelve months to be cash from operations. The Company anticipates that its capital expenditures required to sustain operations will be approximately \$250,000 during the next twelve months 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, if precious metal recovery cannot be utilized, an increase in cost of sales 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 with cash from operations. However, due to the level of current backlog, projected new order intake, the status of the general economy and the shift to Commercial Off-The-Shelf (COTS) by the defense industry, the Company might be required to take additional cost cutting and productivity enhancing measures to assure its continued profitability.

Over the long-term, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company believes that it will generate sufficient cash from operations to satisfy its operating needs over the next twelve months. In the event that bookings in the long-term decline significantly below the level experienced during the previous two fiscal years, the Company may be required to implement further cost-cutting or other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. In appropriate situations, the Company may seek strategic alliances, joint ventures with others or acquisitions in order to maximize marketing potential and utilization of existing resources to provide further opportunities for growth.

At August 31, 2015, February 28, 2015 and August 31, 2014, the Company had cash of approximately \$446,000, \$820,000 and \$698,000, respectively. The cash decrease for the six months ended August 31, 2015 was primarily due to the payment of dividends.

At August 31, 2015, February 28, 2015 and August 31, 2014, the Company had investments in treasury bills and certificates of deposit of approximately \$6,710,000, \$6,971,000 and \$6,720,000, respectively.

At August 31, 2015, the Company had working capital of \$11,334,000 as compared with working capital at August 31, 2014 of \$11,502,000. At February 28, 2015, the Company had working capital of \$12,052,000. The \$718,000 decrease for the six months ended August 31, 2015 was due primarily to decreases in cash and inventories.

Stock Repurchase Program:

On May 29, 2015, the Company announced that its Board of Directors authorized a stock repurchase program under which the Company may repurchase up to \$500,000 of its outstanding common stock from time to time through February 29, 2016 on the open market or in privately negotiated transactions as determined by the Company's management and in accordance with the requirements of the Securities and Exchange Commission.

On July 28, 2015, the Company announced that its Board of Directors had expanded the stock repurchase program to cover repurchases of up to \$1,000,000 of its outstanding common stock from time to time through February 29, 2016 on the open market or in privately negotiated transactions as determined by the Company's management and in accordance with the requirements of the Securities and Exchange Commission. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other conditions.

The Company did not repurchase any shares under the stock repurchase program during the six months ended August 31, 2015.

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, 2015, including those identified below. We do not undertake any obligation to update forward-looking statements, except as required by law.

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

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

Our complex manufacturing processes may lower yields and reduce our revenues.

Our business could be materially and adversely affected if we are unable to obtain qualified supplies of raw materials, parts and finished components on a timely basis and at a cost-effective price.

We are dependent on government contracts, which are subject to termination, price renegotiations and regulatory compliance, which can increase the cost of doing business and negatively impact our revenues.

Changes in government policy or economic conditions could negatively impact our results.

Our inventories may become obsolete and other assets may be subject to risks.

Environmental regulations could require us to incur significant costs.

Our business is highly competitive, and increased competition could reduce gross profit margins and the value of an investment in our Company.

Downturns in the business cycle could reduce the revenues and profitability of our business.

Our operating results may decrease due to the decline of profitability in the semiconductor industry.

Uncertainty of current economic conditions, domestically and globally, could continue to affect demand for our products and negatively impact our business.

Cost reduction efforts may be unsuccessful or insufficient to improve our profitability and may adversely impact productivity.

We may not achieve the intended effects of our business strategy, which could adversely impact our business, financial condition and results of operations.

Our inability to introduce new products could result in decreased revenues and loss of market share to competitors; new technologies could also reduce the demand for our products.

A shortage of three-inch silicon wafers could result in lost revenues due to an inability to build our products.

The nature of our products exposes us to potentially significant product liability risk.

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

Our business could be negatively affected by the outcome of the proxy contest at our 2015 annual meeting of stockholders and other activist stockholder activities.

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

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

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

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

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

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

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

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

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

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

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

Our identification of any material weaknesses in our internal control over financial reporting in the future may adversely affect the accuracy and timing of our financial reporting.

ITEM 4. CONTROLS AND PROCEDURES

Our Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

Other than the changes referenced in the Company's Annual Report on Form 10-K for the year ended February 28, 2015 under "Management's Report on Internal Control over Financial Reporting", there were no changes in the Company's internal control over financial reporting during the second quarter ended August 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of August 31, 2015, we had no known material current, pending, or threatened litigation.

ITEM 5. OTHER INFORMATION

On May 22, 2015, the Company's Compensation Committee approved a discretionary bonus of \$70,000 to Shevach Saraf, the Company's Chairman, President, Chief Executive Officer, Treasurer and Chief Financial Officer. The bonus was approved in recognition of Mr. Saraf overcoming various challenges, including a change in personnel, and to incentivize Mr. Saraf's performance during fiscal year 2016. The discretionary cash bonus was paid in June of 2015.

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

19

SIGNATURES

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

SOLITRON DEVICES, INC.

Date: October 15, 2015 /s/ Shevach Saraf
Shevach Saraf

Chairman, President,

Chief Executive Officer,

Treasurer and

Chief Financial Officer

(Principal Executive and Financial Officer)

EXHIBIT INDEX

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