

SOLITRON DEVICES INC  
Form 10-K  
June 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 29, 2016

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)

Delaware 22-1684144  
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification Number)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
None	N/A

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

Common Stock, \$0.01 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 31, 2015 was \$8,137,474 (based on the closing sales price of the registrant's common stock on that date). The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of June 10, 2016 was 2,232,977.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016 are incorporated herein by reference in Part III.

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PART I

ITEM 1. BUSINESS

GENERAL

Solitron Devices, Inc., a Delaware corporation (the "Company" or "Solitron"), designs, develops, manufactures and markets solid-state semiconductor components and related devices primarily for the military and aerospace markets. We manufacture a large variety of bipolar and metal oxide semiconductor ("MOS") power transistors, power and control hybrids, junction and power MOS field effect transistors ("Power MOSFETS"), 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 ("JAN") transistors, diodes and Standard Military Drawings ("SMD") voltage regulators, are sold as standard or catalog items.

The Company was incorporated under the laws of the State of New York in March 1959, and reincorporated under the laws of the State of Delaware in August 1987. For information concerning the Company's financial condition, results of operations, and related financial data, you should review the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Financial Statements and Supplementary Data" sections of this Annual Report. You should also review and consider the risks relating to the Company's business, operations, financial performance, and cash flows below under "Risk Factors."

PRODUCTS

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

Set forth below by principal product type are the percentage (i) contributions to the Company's total sales of each of the Company's principal product lines for the fiscal years ended February 29, 2016 and February 28, 2015 and (ii) contributions to the Company's total order backlog at February 29, 2016 and February 28, 2015.

Product Line	(i) % of Total Sales for	(i) % of Total Sales for	(ii) % Backlog at	(ii) % Backlog at February 28,
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	Fiscal Year Ended February 29, 2016		Fiscal Year Ended February 28, 2015		February 29, 2016		2015
Power Transistors	17	%	14	%	9	%	15
Hybrids	45	%	56	%	22	%	53
Power MOSFETS	32	%	26	%	65	%	28
Field Effect Transistors	6	%	4	%	4	%	4
	100	%	100	%	100	%	100

The Company's backlog at February 29, 2016 and February 28, 2015 and total sales for the years ended February 29, 2016 and February 28, 2015 reflect demand for the Company's products at such dates and for such periods. For more information, see "Backlog" below. The variation in the proportionate share of each product line for each period reflects changes emanating from: demand, Congressional appropriations, the process and timing associated with awards of defense contracts, shifts in technology and consolidation of defense prime contractors.

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

It is customary to subdivide active electronic components into those of a discrete nature and those which are non-discrete. Discrete devices contain one single semiconductor element; and non-discrete devices consist of integrated circuits or hybrid circuits, which contain two or more elements, either active or passive, interconnected to make up a selected complete electrical circuit. In the case of an integrated circuit, a number of active and passive elements are incorporated onto a single silicon chip. A hybrid circuit, on the other hand, is made up of a number of individual components that are mounted onto a suitable surface material, interconnected by various means, and suitably encapsulated. Hybrid and integrated circuits can either be analog or digital; presently, the Company manufactures only analog components. The Company's products are either standard devices, such as catalog type items (e.g., transistors and voltage regulators), or application-specific devices, also referred to as custom or semi-custom products. The latter are designed and manufactured to meet a customer's particular requirements. For the fiscal years ended February 29, 2016 and February 28, 2015, approximately 90% of the Company's sales have been of custom products, and the remaining 10% have been of standard or catalog products.

Approximately 90% of the semiconductor components produced by the Company are manufactured pursuant to approved Source Control Drawings (SCD) from the United States government and/or its prime contractors; the remainder are primarily JAN qualified products approved for use by the military. The Company's semiconductor products are used as components of military, commercial, and aerospace electronic equipment, such as ground and airborne radar systems, power distribution systems, missiles, missile control systems, and spacecraft. The Company's products have been used on the space shuttle and on the spacecraft sent to the moon, to Jupiter (on Galileo), and to Mars (on Global Surveyor and Mars Sojourner). For the fiscal years ended February 29, 2016 and February 28, 2015, approximately 90% of the Company's sales have been attributable to contracts with customers whose products are sold to the United States government. The remaining 10% of sales are for non-military, scientific and industrial applications.

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

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

#### Power Transistors:

Power transistors are high current and/or high voltage control devices commonly used for active gain applications in electronic circuits. The Company manufactures a large variety of power bipolar transistors for applications requiring currents in the range of 0.1A to 300A or voltages in the range of 30V to 1000V. The Company employs over 60 types of silicon chips to manufacture over 500 types of power bipolar transistors and is currently expanding this line in response to increased market demand resulting from other companies' departure from the military market. The Company also manufactures power diodes under the same military specification. Additionally, it manufactures power N-Channel and P-Channel MOSFET transistors and is continuously expanding that line in accordance with customers' requirements. The Company is qualified to deliver these products under MIL-PRF-19500 in accordance with JAN, JANTX and JANTXV. JAN, JANTX AND JANTXV denotes various quality military screening levels. The Company manufactures both standard and custom power transistors.

The Company has been certified and qualified since 1968 under MIL-PRF-19500 (and its predecessor) standards promulgated by the Defense Supply Center Columbus ("DSCC"). These standards specify the uniformity and quality of bipolar transistors and diodes purchased for United States military programs. The purpose of the program is to standardize the documentation and testing for bipolar semiconductors for use in United States military and aerospace applications. Attainment of certification and/or qualification to MIL-PRF-19500 requirements is important since it is a prerequisite for a manufacturer to be selected to supply bipolar semiconductors for defense-related purposes.

MIL-PRF-19500 establishes specific criteria for manufacturing construction techniques and materials used for bipolar semiconductors and assures that these types of devices will be manufactured under conditions that have been demonstrated to be capable of continuously producing highly reliable products. This program requires a manufacturer to demonstrate its products' performance capabilities. A manufacturer receives certification once its Product Quality Assurance Program Plan is reviewed and approved by DSCC. A manufacturer receives qualification once it has demonstrated that it can build and test a sample product in conformity with its certified Product Quality Assurance Program Plan. The Company expects that its continued maintenance of MIL-PRF-19500 qualification will continue to improve its business posture by increasing product marketability. The Company continues to expand its power transistor product offering.

Hybrids:

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

The Company has been certified (since 1990) and qualified (since 1995) under MIL-PRF-38534 Class H (and its predecessor) standards promulgated by the DSCC. These standards specify the uniformity and quality of hybrid products purchased for United States military programs. The purpose of the program is to standardize the documentation and testing for hybrid microcircuits for use in United States military and aerospace applications. Attainment of certification and/or qualification under MIL-PRF-38534 Class H requirements is important since it is a prerequisite for a manufacturer to be selected to supply hybrids for defense-related purposes. MIL-PRF-38534 Class H establishes definite criteria for manufacturing construction techniques and materials used for hybrid microcircuits and assures that these types of devices will be manufactured under conditions that have been demonstrated to be capable of continuously producing highly reliable products. This program requires a manufacturer to demonstrate its products' performance capabilities. Certification is a prerequisite of qualification. A manufacturer receives certification once its Product Quality Assurance Program Plan is reviewed and approved by DSCC. A manufacturer receives qualification once it has demonstrated that it can build and test a sample product in conformity with its certified Product Quality Assurance Program Plan. The Company expects that its continued maintenance of MIL-PRF-38534 Class H qualification will continue to improve its business posture by increasing product marketability.

Voltage Regulators:

Voltage regulators provide the power required to activate electronic components such as the integrated circuits found in all electronic devices from radar and missile systems to smart phones.

Power MOSFETs:

Power MOSFETs perform the same function as bipolar transistors except that power MOSFETs are current controlled and bipolar transistors are voltage controlled. MOSFETs are popular due to their high input impedance, fast switching speed, and resistance to thermal runaway and secondary breakdown. Power MOSFETs are available in very high voltage and current ratings.



Field Effect Transistors:

Field effect transistors are surface-controlled devices where conduction of electrical current is controlled by the electrical potential applied to a capacitively coupled control element. The Company manufactures about 30 different types of junction and MOS field effect transistor chips. They are used to produce over 350 different field effect transistor types. Most of the Company's field effect transistors conform to standard Joint Electronic Device Engineering Council designated transistors, commonly referred to as standard 2N number types. The Company continues to expand its field effect transistor product offering. The Company manufactures both standard and custom field effect transistors.

MANUFACTURING

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

Each new design is first produced on a CAD/CAE (Computer Aided Design/Computer Aided Engineering) computer system. The design layout is then reduced to the desired micro size and transferred to silicon wafers in a series of steps that include photolithography, chemical or plasma etching, oxidation, diffusion and metallization. The wafers then go through a fabrication process. When the process is completed, each wafer contains a large number of silicon chips, each chip being a single transistor device or a single diode. The wafers are tested using a computerized test system prior to being separated into individual chips. The chips are then assembled in standard or custom packages, incorporated in hybrids or sold as chips to other companies. The chips are normally mounted inside a chosen package using eutectic, soft solder or epoxy die attach techniques, and then wire bonded to the package pins using gold or aluminum wires. Many of the packages are manufactured by the Company and, in most cases, the Company plates its packages with gold, nickel or other metals utilizing outside vendors to perform the plating operation. In the case of hybrids, design engineers formulate the circuit and layout designs. Ceramic substrates are then printed with thick film gold conductors to form the interconnect pattern and with thick film resistive inks to form the resistors of the designed circuit. Semiconductor chips, resistor chips, capacitor chips and inductors are then mounted on the substrates and sequential wire bonding is used to interconnect the various components to the printed substrate, as well as to connect the circuit to the external package pins. For the years ended February 29, 2016 and February 28, 2015, the Company manufactured approximately 20% of the hybrid packages it used and purchased the balance from suppliers.

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

#### ISO 9001:2008

In March 2000, Underwriters Laboratories awarded the Company ISO 9001 qualification. The ISO 9001 Program is a series of quality management and assurance standards developed by a technical committee of the European Community Commission working under the International Organization for Standardization. During an annual surveillance audit performed in November 2013, the Company was subsequently qualified as meeting the new ISO 9001:2008 standard.

#### AS9100

In September 2009, Underwriters Laboratories awarded the Company AS9100 qualification. During annual surveillance audits performed in November 2013, and again in July 2015, the Company was re-certified. Companies in the aerospace industry are increasingly selecting suppliers on the basis of AS9100 certification. Achieving certified status means that the Company may obtain new business that may have been out of reach in the past and as obtaining such certification is now a requirement of several customers, we expect to maintain ongoing relationships with our existing aerospace customers long into the future.

#### MARKETING AND CUSTOMERS

The Company's products are sold throughout the United States and abroad directly to customers and through a network of manufacturers' representatives and distributors. The Company is represented (i) in the United States by five representative organizations that operate out of five different locations with 8 salespeople and two stocking distributor organizations that operate out of 12 locations and a third stocking distributor that operates out of 350 sales offices worldwide employing 2,700 people and (ii) in the international market by a representative organization in Israel with one salesperson. The Company also directly employs several sales, marketing, and application engineering personnel to coordinate operations with the representatives and distributors and to handle key accounts.

During the fiscal year ended February 29, 2016, the Company sold products to approximately 63 customers. Of these 63 customers, 28 had not purchased products from the Company during the previous fiscal year. During the fiscal year ended February 29, 2016, Raytheon Company accounted for approximately 49% of net sales, as compared to the 48% it accounted for during the fiscal year ended February 28, 2015. During the fiscal year ended February 29, 2016, sales to the United States Government accounted for approximately 13% of net sales, as compared to the 15% it accounted for during the fiscal year ended February 28, 2015. Raytheon Company, the United States Government, and Lockheed Martin are the only customers that accounted for more than 10% of net sales during the last fiscal year. Eighteen of the Company's customers accounted for approximately 95% of the Company's net sales during the fiscal year ended February 29, 2016. It has been the Company's experience that a large percentage of its sales have been attributable to a relatively small number of customers in any particular period. Due to mergers and acquisitions activity in general, and among large defense contractors in particular, the number of large customers will most likely continue to decline in number, but this does not necessarily mean that the Company will experience a decline in sales. As a result, the Company expects customer concentration to continue. The loss of any major customer without offsetting orders from other sources could have a material adverse effect on the business, financial condition and results of operations of the Company.

Historically, during the fiscal year ended February 29, 2016 and prior to that date, a substantial portion of the Company's products were sold pursuant to contracts, or subcontracts with or to customers whose end products are sold to the United States Government. Accordingly, the Company's sales may be adversely impacted by Congressional appropriations, changes in national defense policies and priorities and the continuing impact of the sequestration process that was triggered on March 1, 2013 which imposes automatic, across-the-board cuts to mandatory and discretionary federal spending over the next ten years. All of the Company's contracts with the United States Government or its prime contractors contain provisions permitting termination at any time at the convenience of the United States Government or the prime contractor upon payment to the Company of costs incurred plus a reasonable profit.

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

In addition, the Company continues its efforts to identify a niche market for high-end industrial custom power modules and custom motor controllers where the Company's capabilities can offer a technological advantage to customers in the motor driver, and power supplies industries. However, there is no guarantee that the Company will be successful in this effort. To date, the Company has made only limited inroads in identifying such a market. The Company continues its effort to offer a solution to customers who seek alternative sources to bi-polar semiconductors that are discontinued by other manufacturers. However, there is no guarantee that the Company will be successful in this effort.

Sales to foreign customers, located mostly in Canada, Western Europe and Australia, accounted for approximately 8% of the Company's net sales for the fiscal year ended February 29, 2016 as compared to 16% for the year ended February 28, 2015. All sales to foreign customers are conducted utilizing exclusively U.S. dollars. See Note 9 of the financial statements for more information regarding export sales to customers.

## BACKLOG

The Company's order backlog, which consists of semiconductor and hybrid related open orders, more than 97% of which is scheduled for delivery within 12 months, was approximately \$5,832,000 at February 29, 2016, as compared to \$7,176,000 at February 28, 2015. For the years ended February 29, 2016 and February 28, 2015, the entire backlog consisted of orders for electronic components. The Company currently anticipates that the majority of its open order backlog will be filled by February 28, 2017. In the event that bookings in the long-term decline significantly below the level experienced in the last fiscal year, the Company may be required to implement cost-cutting or other downsizing

measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Bookings and Backlog.”

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

The rate of booking new orders varies significantly from month to month, mostly as a result of sharp fluctuations in the government budgeting and appropriation process. The Company has historically experienced somewhat decreased levels of bookings during the summer months, primarily as a result of such budgeting and appropriation activities. For these reasons, and because of the possibility of customer changes in delivery schedules or cancellations of orders, the Company’s backlog as of any particular date may not be indicative of actual sales for any succeeding period. See “Management’s Discussions and Analysis of Financial Conditions – Result of Operations” for a discussion of the decrease in bookings for the year ended February 29, 2016 as compared to the previous year.

## PATENTS AND LICENSES

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

## FUTURE PLANS

To increase liquidity, the Company plans to (a) continue improving operating efficiencies, (b) maintain or reduce overhead expenses, (c) develop alternative lower cost packaging technologies and lower cost packaging suppliers, (d) develop products utilizing its current manufacturing technologies geared toward market segments it is currently not serving on a significant level or at all, and (e) replace aging manufacturing equipment with new equipment.

The Company also plans to continue its efforts in selling commercial semiconductors and power modules and to develop appropriate strategic alliance arrangements. If these plans are successful, the Company intends to aggressively pursue sales of these products which could require the Company to invest in the build up of inventories of finished goods and invest in capital equipment (assembly and test) to replace older generation equipment and to support new product manufacturing. Any financing necessary to fund these initiatives could come from equipment leasing, among other financing alternatives. Despite its intentions, the Company cannot assure you that any of the above described plans will be successful in increasing liquidity, reducing costs or improving sales.

## COMPETITION

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

non-aerospace markets, the Company is subject to greater price erosion and foreign competition. The Company continues its efforts to identify a niche market for high-end industrial custom power modules and custom motor controllers where the Company's capabilities can offer a technological advantage to customers in the motor driver and power supplies industries. However, there is no guarantee that the Company will be successful in this effort. The Company continues its effort to offer a solution to customers who seek alternative sources to bi-polar semiconductors that are discontinued by other manufacturers. However, there is no guarantee that the Company will be successful in this effort.

The Company has numerous competitors across all of its product lines. The Company is not in direct competition with any other semiconductor manufacturer for an identical mixture of products; however, one or more of the major manufacturers of semiconductors manufactures some of the Company's products. A few such major competitors (e.g., IXYS Corporation, Motorola Inc. (now On Semiconductors), Fairchild Semiconductor, among others) have elected to withdraw from the military market altogether. However, there is no assurance that the Company's business will increase as a result of such withdrawals. Other competitors in the military market include International Rectifier (the Omnirel Division) now owned by Infinion Semiconductor, Microsemi Corporation (the NES and APT Divisions), M.S. Kennedy Corporation (a wholly owned subsidiary of Anaren, Inc.), Natel Engineering Company and Sensitron Semiconductor. The Company competes principally on the basis of product quality, turn-around time, customer service and price. The Company believes that competition for sales of products that will ultimately be sold to the United States Government has intensified and will continue to intensify as United States defense spending on high reliability components continues to decrease and the Department of Defense pushes for implementation of its 1995 decision to purchase COTS standard products in lieu of products made in accordance with more stringent military specifications. The continuing impact of the sequestration process cannot be assessed at this time. However, indication from key customers is that they will be impacted by spending cuts and therefore it is likely that we will be impacted as well.

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

The Company believes that it will be able to improve its capability to respond more quickly to customer needs and deliver products ahead of schedule.

## EMPLOYEES

At February 29, 2016, the Company had 75 employees, 48 of whom were engaged in production activities, 3 in sales and marketing, 6 in executive and administrative capacities and 18 in technical and support activities. Of the 75 employees, 72 were full time employees and 3 were part time employees.

As part of a cost cutting strategy, effective as of November 2, 2015, exempt employees, who are paid a fixed weekly salary, had scheduled work hours reduced from 40 hours per week to 36 hours and their weekly salary was correspondingly reduced by 10%. For non-exempt employees, who are paid an hourly rate, the standard work schedule was reduced from 40 hours per week to 36 hours, with no change to the hourly rate. These reductions to scheduled work hours and salaries are still in effect.



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

#### SOURCES AND AVAILABILITY OF RAW MATERIAL

The Company purchases its raw materials from multiple suppliers and has a minimum of two suppliers for most of its material requirements. A few of the key suppliers of raw materials and finished packages purchased by the Company, and their approximate percentage of total purchases, are: Egide USA Inc. (16%), Sintermetalglass S.R.L. (9%), Air Products and Chemicals, Inc. (8%), Wuxi Streamtek Ltd. (8%), and Stellar Industries (5%). Because of a diminishing number of sources for components and packages in particular, and the sharp increase in the prices of raw silicon semiconductor wafers, precious metals and gold (used in the finish of the packages), the Company has been obliged to pay higher prices, which consequently has increased costs of goods sold. Should a shortage of three-inch silicon wafers occur, we might not be able to obtain three-inch silicon wafers from any supplier or switch our manufacturing capabilities to another size wafer in time to meet our customer's needs, leading to lost revenues. Most of the packages the Company uses are gold plated, thus they are subject to the volatility and cost fluctuations of gold.

#### EFFECT OF GOVERNMENT REGULATION

The Company has received DSCC approval to supply its products in accordance with MIL-PRF-19500 and Class H of MIL-PRF-38534. These qualifications are required to supply to the United States Government or its prime contractors. The Company expects that its continued maintenance of these qualifications will continue to improve its business posture by increasing product marketability. The Company is also certified in accordance with AS9100 which is a core requirement of most defense aerospace contracts.

#### RESEARCH AND DEVELOPMENT

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

#### ENVIRONMENTAL REGULATION

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

Environmental statutes have been interpreted to provide for joint and several liability and strict liability regardless of actual fault. There can be no assurance that the Company and its subsidiaries will not be required to incur costs to comply with, or that the operations, business or financial condition of the Company will not be materially adversely affected by current or future environmental laws or regulations.

#### ITEM 1A. RISK FACTORS

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

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

During the fiscal year ended February 29, 2016, eighteen customers accounted for approximately 95% of our revenues. The loss or financial failure of any significant customer or distributor, any reduction in orders by any of our significant customers or distributors, or the cancellation of a significant order could materially and adversely affect our business. Furthermore, due to continued industry consolidation, the loss of any one customer or significant order may have a greater impact than we anticipate. We cannot guarantee that we will be able to retain long-term relationships or secure renewals of short-term relationships with our more substantial customers in the future.

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

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

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

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

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

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

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

All of our contracts with the United States Government and its prime contractors contain customary provisions permitting termination at any time at the convenience of the United States Government or its prime contractors upon payment to us for costs incurred plus a reasonable profit. Certain contracts are also subject to price renegotiations in accordance with United States Government sole source procurement provisions. Nevertheless, we cannot assure you that the foregoing government contracting risks will not materially and adversely affect our business, prospects, financial condition or results of operations. Furthermore, we cannot assure you that we would be able to procure new government contracts to offset any revenue losses incurred due to early termination or price renegotiation of existing government contracts.

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

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

A large portion of the Company's sales are to military and aerospace markets which are subject to the business risk of changes in governmental appropriations and changes in national defense policies and priorities. On March 1, 2013, as a result of the federal government being unable to reach an agreement on budget reduction measures required by the Budget Control Act of 2011, an automatic sequestration process was triggered which imposes automatic, across-the-board cuts to mandatory and discretionary federal spending in the amount of \$1.2 trillion over the next ten years. The automatic sequestration process could result in a decline in, or a reduction of, current and future budgets that could adversely affect our financial results.

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

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

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

**Environmental regulations could require us to incur significant costs.**

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

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

The semiconductor industry, and the semiconductor product markets specifically, are highly competitive. Competition is based on price, product performance, quality, turn-around time, reliability and customer service. The gross profit margins realizable in our markets can differ across regions, depending on the economic strength of end-product markets in those regions. Even in strong markets, price pressures may emerge as competitors attempt to gain more

market share by lowering prices. Competition in the various markets in which we participate comes from companies of various sizes, many of which are larger and have greater financial and other resources than we have and thus can better withstand adverse economic or market conditions. In addition, companies not currently in direct competition with us may introduce competing products in the future.

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

The semiconductor industry is highly cyclical. Semiconductor industry-wide sales declined significantly in 2001, 2002, 2004, 2008, and the beginning of 2009. Our markets may experience other, possibly more severe and prolonged, downturns in the future. We may also experience significant changes in our operating profit margins as a result of variations in sales, changes in product mix, price competition for orders and costs associated with the introduction of new products.

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

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

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

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

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

During the last several fiscal years, we have continued certain cost-cutting measures originally started several years ago, we have implemented further cost-saving measures and we will continue to implement further cost saving measures if necessary. The impact of these cost-reduction efforts on our profitability may be influenced by:

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

Since these cost-reduction efforts involve all aspects of our business, they could adversely impact productivity to an extent we did not anticipate and may inhibit future growth prospects.

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

In recognition of the changes in global geopolitical affairs and in United States military spending, we have for a number of years attempted to increase sales of our products for non-military, scientific and industrial niche markets, such as medical electronics, machine tool controls, satellites, telecommunications networks and other market segments in which purchasing decisions are generally based primarily on product quality, long-term reliability and performance, rather than on product price. We are also attempting to offer additional products to the military markets that are complementary to those we currently sell to the military markets. We cannot assure you that these efforts will be successful and, if they are, that they will have the intended effects of increasing profitability. Furthermore, as we



attempt to shift our focus to the sale of products having non-military, non-aerospace applications, we will be subject to greater price erosion and foreign competition.

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

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

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

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

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

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

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

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

**Our business could be negatively affected by the outcome of the 2015 proxy contest or any future proxy contests or other activist stockholder activities.**

During the fiscal year ended February 29, 2016, Cedar Creek Partners LLC, Eriksen Capital Management LLC, Tim Eriksen and David Pointer, (the "Shareholder Group"), pursued a proxy contest against the Company relating to its nomination of two director candidates for election as Class II directors. The two nominees proposed by the Shareholder Group were elected at the 2015 annual stockholders meeting.

Our business could be adversely affected by the outcome of the 2015 proxy contest or any future proxy contests and resulting changes to composition of the Board of Directors because it:

- could require us to incur significant legal fees and proxy solicitation expenses;
- may require significant time and attention from management and the board of directors and direct their attention away from our operations;
- could adversely affect our relationships with key business partners;
- could trigger early termination of CEO's employment agreement with accelerated payments (as further discussed under "Commitments and Contingencies" note of the attached financial statements);

- could result in a potential charge of approximately \$150,000 if our Board of Directors were to reconsider and approve the reimbursement to the Shareholder Group for its proxy contest expenses related to the 2015 Annual Stockholders Meeting;

- could result in loss of potential business opportunities;
- could give rise to perceived uncertainties as to our future direction;
- could make it more difficult to attract and retain qualified personnel; and
- could result in individuals being elected to our board of directors to pursue a particular agenda, which may adversely affect our ability to implement our business strategy and create stockholder value.

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

Our Certificate of Incorporation and Bylaws contain certain provisions, and we have a stockholder rights plan in place, each of which could delay or prevent a change in control of our company or the removal of management, and which could also deter potential acquirers from making an offer to our stockholders and limit any opportunity to realize premiums over prevailing market prices of our common stock.

**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.**

Natural disasters, like those related to hurricanes, or threats or occurrences of other similar events, whether in the United States or internationally, may affect the markets in which we operate and our profitability. Hurricanes have affected us in the past, and may continue to affect us in the future, resulting in damage to our manufacturing facility in South Florida and our manufacturing equipment, office closures and impairing our ability to produce and deliver our products. Such events could also affect our domestic and international sales, disrupt our supply chains, primarily for raw materials and process chemicals and gases, affect the physical facilities of our suppliers or customers, and make transportation of our supplies and products more difficult or cost prohibitive. Due to the broad and uncertain effects that natural events have had on financial and economic markets and stock exchanges and market quotation systems generally, we cannot provide any estimate of how these activities might affect our future results.

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

We rely heavily on our proprietary technologies. Our future success and competitive position may depend in part upon our ability to obtain or maintain protection of certain proprietary technologies used in our principal products. We do not have patent protection on any aspects of our technology. Our reliance upon protection of some of our technology as “trade secrets” will not necessarily protect us from the use by other persons of our technology, or their use of technology that is similar or superior to that which is embodied in our trade secrets. Others may be able to independently duplicate or exceed our technology in whole or in part. We may not be successful in maintaining the confidentiality of our technology, dissemination of which could have material adverse effects on our business. In addition, litigation may be necessary to determine the scope and validity of our proprietary rights.

Obtaining or protecting our proprietary rights may require us to defend claims of intellectual property infringement by our competitors. We could become subject to lawsuits in which it is alleged that we have infringed or are infringing upon the intellectual property rights of others with or without our prior awareness of the existence of those third-party rights, if any.

If any infringements, real or imagined, happen to exist, arise or are claimed in the future, we may be exposed to substantial liability for damages and may need to obtain licenses from the patent owners, discontinue or change our processes or products or expend significant resources to develop or acquire non-infringing technologies. We may not be successful in such efforts or such licenses may not be available under reasonable terms. Our failure to develop or acquire non-infringing technologies or to obtain licenses on acceptable terms or the occurrence of related litigation itself could have material adverse effects on our operating results, financial condition and cash flows.

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

The semiconductor industry is capital intensive. Semiconductor manufacturing requires a regular upgrading of process technology to remain competitive, as new and enhanced semiconductor processes are developed which permit smaller, more efficient and more powerful semiconductor devices. We maintain certain of our own manufacturing, assembly and test facilities, which have required and will continue to require significant investments in manufacturing technology and equipment, especially for new technologies we develop. We are also attempting to add the appropriate level and mix of capacity to meet our customers' future demand. There can be no assurance that we will have sufficient capital resources to make necessary investments in manufacturing technology and equipment. Although we believe that anticipated cash flows from operations and existing cash reserves will be sufficient to satisfy our future capital expenditure requirements, we cannot promise that this will be the case or that alternative sources of capital or credit will be available to us on favorable terms or at all.

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

In order to conduct our business, we make substantial investments in plant and equipment, with substantial amounts of equipment on loan to our third party contract manufacturers. Some of our investments in plant and equipment support particular technologies, processes or products, and may not be applicable to other or newer technologies, processes or products. Also, the ability to relocate and qualify equipment for our operations, whether within our Company or to and from third party contractors could be time consuming and costly. To the extent we invest in more equipment or a mix of equipment than we can use efficiently, experience low plant or equipment utilization due to reduced demand or adverse market conditions, our plant or equipment becomes older or outmoded, or we are not able to efficiently recover and/or utilize equipment on loan at third party contractors, we may incur significant costs or impairment charges that could materially adversely affect our results of operation and financial condition.

**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.**

We have established procedures for the review and monitoring of the credit worthiness of our customers and/or significant amounts owing from customers. Despite our monitoring and procedures, especially in the current macroeconomic situation, we may find that, despite our efforts, one or more of our customers become insolvent or face bankruptcy proceedings. Such events could have an adverse effect on our operating results if our receivables applicable to that customer become uncollectible in whole or in part, or if our customers' financial situation result in reductions in whole or in part of our ability to continue to sell our products or services to such customers at the same levels or at all.

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

We expect revenues from foreign markets to continue to represent a portion of total revenues. Among others, these risks include: changes in, or impositions of, legislative or regulatory requirements, including tax laws in the United States and in the countries in which we manufacture or sell our products; trade restrictions; transportation delays; work stoppages; economic and political instability; crime; kidnapping; war; terrorism; and foreign currency fluctuations. Additionally, in certain jurisdictions where we use third party contractors, the legal systems do not provide effective remedies to us when the contractor has breached its obligation or otherwise fails to perform.

In addition, it is more difficult in some foreign countries to protect our products or intellectual property rights to the same extent as is possible in the United States. Therefore, the risk of piracy or misuse of our technology and product may be greater in these foreign countries. Although we have not experienced any material adverse effect on our operating results as a result of these and other factors, such factors could have a material adverse effect on our

financial condition and operating results in the future.

**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.**

We routinely collect and store sensitive data, including intellectual property and other proprietary information about our business and that of our customers, suppliers and business partners. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and liability under laws that protect the privacy of personal information. It could also result in regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation and cause a loss of confidence in our products and services, which could adversely affect our business/operating margins, revenues and competitive position.

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

Our common stock, which is traded on the over-the-counter bulletin board, has experienced and may continue to experience significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in financial results, financial performance and other activities of other publicly traded companies in the semiconductor industry could cause the price of our common stock to fluctuate substantially. In addition, in recent periods, our common stock, the stock market in general and the market for shares of semiconductor industry-related stocks in particular have experienced extreme price fluctuations which have often been unrelated to the operating performance of the affected companies. Any similar fluctuations in the future could adversely affect the market price of our common stock.

**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 stock repurchase program.**

We do not have an annual dividend policy in place. We declared and paid a cash dividend of \$0.05 per share on June 24, 2014 and we declared and paid a cash dividend of \$0.25 per share on June 29, 2015. In connection with the fiscal year ended February 29, 2016, we have not declared a cash dividend. Our Board of Directors has authorized a repurchase program under which the Company may repurchase up to \$1,000,000 of the Company's common stock. The Company purchased 65,027 shares of Common Stock on November 20, 2015 under the previously authorized repurchase program. Any determination to pay cash dividends in the future at the dividend rates declared in 2014 and 2015 or at all, and any determination to repurchase shares of the Company's common stock under the current and any future repurchase programs is contingent on a variety of factors, including our financial condition, results of operations, business requirements, and our Board of Directors' continuing determination that such dividends or stock repurchases are in the best interests of our stockholders and in compliance with all applicable laws and agreements. Accordingly, there is no assurance that we will continue to pay cash dividends at recent historical levels or at all or repurchase stock pursuant to our stock repurchase program, or that any declaration of cash dividends or stock repurchases under our stock repurchase program will have a beneficial impact on our stock price.

**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.**

Pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC promulgated disclosure rules for manufacturers of products containing certain minerals which are mined from the Democratic Republic of Congo and adjoining countries. These "conflict minerals" are commonly found in metals used in the manufacture of semiconductors. Manufacturers are also required to disclose their efforts to prevent the sourcing of such minerals and metals produced from them. While certain aspects of these rules continue to be litigated and a ruling by the Federal Court of Appeals for the D.C. Circuit has led to further uncertainty regarding the SEC's enforcement of the rule, the disclosure rules, as modified by the ruling, went into effect in 2014. The implementation of these regulations may limit the sourcing and availability of some of the metals used in the manufacture of our products. The regulations may also reduce the number of suppliers who provide conflict-free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. Finally, some of our customers may elect to disqualify us as a supplier if we are unable to verify that the metals used in our products are free of conflict minerals.

**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. 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.

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 or additional material weaknesses, could adversely affect our stock price and investor confidence.

ITEM 1B UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company's manufacturing operations and its corporate headquarters are located in one leased facility in West Palm Beach, Florida. The Company leases approximately 47,000 sq. ft. for its facility. The lease is for a term ending on December 31, 2021 and includes an option to renew the lease for an additional five years beginning on January 1, 2022 under current terms. The Company believes that its facility in West Palm Beach, Florida is suitable and adequate to meet its requirements currently and for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of February 29, 2016, we had no known material current, pending, or threatened litigation.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART IIITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since March 1995, the Company's Common Stock has been traded on the Over The Counter Bulletin Board ("OTCBB") under the symbol "SODI". The Company's Common Stock was traded on the New York Stock Exchange until October 13, 1993, at which time it began trading on the Nasdaq Small Cap Market where it was traded until March 1995.

The following table sets forth for the periods indicated, high and low bid information of the Common Stock as reported by the OTCBB. The prices set forth below reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	FISCAL YEAR ENDED FEBRUARY 29, 2016		FISCAL YEAR ENDED FEBRUARY 28, 2015	
	HIGH	LOW	HIGH	LOW
First Quarter	\$4.31	\$3.95	\$4.30	\$3.89
Second Quarter	\$4.91	\$4.20	\$4.24	\$3.97
Third Quarter	\$4.60	\$4.22	\$4.30	\$4.00
Fourth Quarter	\$4.41	\$3.21	\$4.47	\$4.03

As of February 29, 2016, there were approximately 1,380 holders of record of the Company's Common Stock. On February 29th, 2016, the last sale price of the Common Stock as reported on the OTCBB was \$3.75 per share.

Since emerging from bankruptcy in 1993 through the fiscal year ended February 28, 2014, the Company had not paid any dividends. Pursuant to the Company's ability to pay its settlement proposal with the USEPA, the Company had agreed not to pay dividends on any shares of capital stock until the settlement amount for environmental liabilities was agreed upon and paid in full. The Company made its last payment to the USEPA on May 22, 2013. On May 19, 2014, the Board of Directors approved a cash dividend of \$0.05 per share of common stock which was paid on June 24, 2014 to stockholders of record as of the close of business on June 9, 2014. On May 29, 2015, the Board of Directors approved a cash dividend of \$0.25 per share of common stock which was paid on or about July 22, 2015 to stockholders of record as of the close of business on June 29, 2015.

On May 29, 2015, the Board of Directors of the Company authorized a repurchase program under which the Company may repurchase up to \$500,000 of the Company's common stock through February 29, 2016. On July 28, 2015, the Company announced that the 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 November 20, 2015 the Company purchased for \$279,616 a total of 65,027 shares of the Company's common stock pursuant to the repurchase program. On January 15, 2016, the Board of Directors of the Company amended the repurchase program under which the Company may repurchase up to \$1,000,000 of its outstanding common stock without an expiration date to the repurchase program. Under the repurchase program, repurchases may be made by the Company from time to time in the open market or through privately negotiated transactions depending on market conditions, stock price, corporate and regulatory requirements, and other factors

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

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

You should read the following discussion in conjunction with the "Financial Statements and Supplementary Data" section of this Annual Report on Form 10-K. You also should review and consider the risks relating to the Company's business, operations, financial performance, and cash flows presented earlier under "Risk Factors."

INTRODUCTION

The Company 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 MOS power transistors, power and control hybrids, junction and power MOFSET's, 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 JAN transistors, diodes and SMD voltage regulators, are sold as standard or catalog items.

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

	(Dollars in Thousands)	
	Years Ended	
	February	
	29, 2016	28, 2015
Net Sales	\$8,395	\$9,757
Cost of sales	6,621	7,225
Gross profit	1,774	2,532
Selling, general and administrative expenses	1,969	1,610
Operating (loss) income	(195 )	922
Interest income	30	16
Other income (expense), net	-	8
Provision for Income taxes	0	(19 )
Net (Loss) Income	\$(165 )	\$927

TRENDS AND UNCERTAINTIES:

During the fiscal year ended February 29, 2016, the Company's book-to-bill ratio was approximately 0.82 as compared to approximately 0.90 for the fiscal year ended February 28, 2015 reflecting a continued 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. 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 below the level experienced in the last 24-36 months, the Company might be required to implement further cost cutting or other downsizing measures to continue its business operations.

#### SIGNIFICANT ACCOUNTING PRINCIPLES:

##### Cash and Cash Equivalents

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

##### Earnings Per Common Share

Earnings per common share is presented in accordance with Accounting Standards Codification ("ASC") 260-10 "Earnings per Share." Basic earnings per common share is computed using the weighted average number of common shares outstanding during the period.

Diluted earnings per common share incorporate the incremental shares issuable upon the assumed exercise of stock options to the extent they are not anti-dilutive using the treasury stock method.

### Shipping and Handling

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

### Inventories

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

The Company’s inventory valuation policy is as follows:

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

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

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

### Results of Operations

#### 2016 vs. 2015

Net sales for the fiscal year ended February 29, 2016 decreased by approximately 14% to \$8,395,000 versus \$9,757,000 during the fiscal year ended February 28, 2015, as a result of a decrease in the value of orders that were shipped in accordance with customer requirements.

Net bookings were less than net sales by approximately 16%. Backlog decreased from \$7,176,000 as of February 28, 2015 to \$5,832,000 as of February 29, 2016. The Company has experienced a decrease in the level of bookings of approximately 19 % for the fiscal year ended February 29, 2016 as compared to the previous fiscal year primarily due to delays and significant changes in defense spending and on priorities in military programs the Company supports.

During the fiscal year ended February 29, 2016, the Company shipped 85,175 units as compared with 90,309 units shipped during the fiscal year ended February 28, 2015. 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 might not be a reliable indicator of the Company's performance.

Cost of sales for the fiscal year ended February 29, 2016 decreased to \$6,621,000 from \$7,225,000 for the fiscal year ended February 28, 2015 due to lower sales and product mix resulting in a decrease of raw materials used. Expressed as a percentage of sales, cost of sales increased to 79% for the fiscal year ended February 29, 2016 when compared to 74% for the fiscal year ended February 28, 2015.

Gross profit for the fiscal year ended February 29, 2016 decreased to \$1,774,000 from \$2,532,000 for the fiscal year ended February 28, 2015 due primarily to lower net sales. Expressed as a percentage of sales, gross profit for the fiscal year ended February 29, 2016 decreased to 21% as compared to 26% for the fiscal year ended February 28, 2015.



During the year ended February 29, 2016, selling, general and administrative expenses, as a percentage of sales, increased to approximately 23% as compared to 17% for the year ended February 28, 2015. In terms of dollars, selling, general and administrative expenses increased approximately 22% to \$1,969,000 for the fiscal year ended February 29, 2016 from \$1,610,000 for the fiscal year ended February 28, 2015. This increase is primarily the result of an increase in shareholder meeting costs of \$145,000 and legal fees of \$281,000 related to the proxy fight and employee relations offset by a decrease in selling wages and commissions of \$29,000 related to the Director of Sales position that was vacant during four months of the year ended February 29, 2016.

Operating (loss) for the fiscal year ended February 29, 2016 was \$(195,000) as compared to an operating income of \$922,000 for the fiscal year ended February 28, 2015. This decrease was mainly attributable to lower sales and the increase in selling, general and administrative expenses.

Interest income for the fiscal year ended February 29, 2016 increased to \$30,000 from \$16,000 during the fiscal year ended February 28, 2015. This increase was attributable to higher earned interest rates on certificates of deposit and treasury bills.

Net (loss) for the fiscal year ended February 29, 2016 was \$(165,000) as compared to net income of \$927,000 for the fiscal year ended February 28, 2015. This decrease was mainly attributable to the increase in selling, general and administrative expenses and lower sales and as discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities:

Net cash provided by operating activities was \$612,000 for the year ended February 29, 2016 primarily reflecting a net loss of (\$165,000), a decrease in accounts receivable of \$490,000 and a decrease in inventory of \$527,000 offset by a decrease in accounts payable of \$261,000 and a \$134,000 decrease in accrued expenses and other liabilities.

Net cash provided by operating activities was \$1,131,000 for the year ended February 28, 2015, principally reflecting net income of \$927,000, a decrease of \$120,000 in inventory levels to meet customer demand, and an increase to accounts receivable of \$233,000 and accounts payable post-petition of \$118,000.

### Investing Activities:

Net cash provided by investing activities was \$45,000 for the year ended February 29, 2016 principally reflecting \$500,000 in sales of treasury bills and certificates of deposit, net of \$731,000 in purchases of treasury bills and certificates of deposit, and \$186,000 in purchases of property, plant and equipment.

Net cash used in investing activities was \$833,000 for the year ended February 28, 2015 principally reflecting the net purchase of investments in treasury bills and certificates of deposit with \$710,000 of cash and the purchases of \$123,000 of manufacturing equipment.

Financing Activities:

Net cash used in financing activities was \$843,000 for the year ended February 29, 2016 primarily reflecting a \$575,000 dividend paid to stockholders and \$279,000 paid to a stockholder in connection with a privately negotiated stock repurchase offset by \$11,000 received from stock option exercises by the Company's employees.

Net cash used in financing activities was \$103,000 for the year ended February 28, 2015, principally reflecting a paid cash dividend of \$109,000, partially offset by proceeds from the exercise of stock options of \$6,000.

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 \$300,000 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, 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 February 29, 2016 and February 28, 2015, the Company had cash and cash equivalents of approximately \$634,000 and \$820,000, respectively. The cash decrease for the year ended February 29, 2016 was primarily due to the payment of dividends and the repurchase of shares from a stockholder during the year ended February 29, 2016.

At February 29, 2016 and February 28, 2015, the Company had investments in treasury bills and certificates of deposit of approximately \$6,740,000 and \$6,971,000, respectively.

At February 29, 2016, the Company had working capital of \$11,512,000 as compared with working capital at February 28, 2015 of \$12,052,000. The decrease for the year ended February 29, 2016 was due primarily to decreases in cash and inventories and paydown of accounts payable.

#### 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.

On November 20, 2015, the Company repurchased 65,027 shares of outstanding common stock under its previously authorized stock repurchase program at \$4.30 per share from a stockholder in a privately negotiated transaction for an

aggregate price of \$279,616.

On January 15, 2016, the Board of Directors amended the Company's previously authorized stock repurchase program to permit the Company to acquire up to \$1,000,000 of its outstanding common stock from time to time, increasing the Company's authorization from the \$720,000 remaining and eliminating the expiration date of February 29, 2016. Purchases under the amended stock repurchase program may be made through the open market or 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.

#### Off-Balance Sheet Arrangements

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

#### BOOKINGS AND BACKLOG

During the fiscal year ended February 29, 2016, the Company's net bookings were \$7,060,000 in new orders as compared with \$8,773,000 for the year ended February 28, 2015, reflecting a decrease in bookings of approximately 20%. The Company's backlog decreased to \$5,832,000 at February 29, 2016 as compared with \$7,176,000 as of February 28, 2015, reflecting a decrease of approximately 19% in backlog. In the event that bookings in the long-term continue to decline significantly below the level experienced in the past 36 to 48 months, the Company may be required to implement additional cost-cutting and other downsizing measures to continue its business operations. Such cost-cutting measures could inhibit future growth prospects and current productivity.

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

## FUTURE PLANS

To increase liquidity, the Company plans to (a) continue improving operating efficiencies, (b) reduce overhead expenses, (c) develop alternative lower cost packaging technologies and lower cost packaging suppliers, (d) develop products utilizing its current manufacturing technologies geared toward market segments it is currently not serving on a significant level or not at all, and (e) replace aging manufacturing equipment with new equipment to improve efficiency.

The Company also plans to continue its efforts in selling commercial semiconductors and power modules and to develop appropriate strategic alliance arrangements. If these plans are successful, the Company intends to aggressively pursue sales of these products which could require the Company to invest in the building up of inventories of finished goods and invest in capital equipment (assembly and test) to replace older generation equipment and to support new product manufacturing. Any financing necessary to fund these initiatives could come from equipment leasing, among other financing alternatives. Despite its intentions, the Company cannot assure you that any of the above-described plans will be successful in increasing liquidity, reducing costs or improving sales.

## INFLATION

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

## SEASONALITY

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

## FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K 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 this Annual Report on Form 10-K, 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 2015 proxy contest or any future proxy contests or 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 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 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.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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## **Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. In addition, any evaluation of the effectiveness of internal controls over financial reporting in future periods is subject to the risk that those internal controls may become inadequate because of change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), the Company's management conducted an evaluation of the effectiveness of its internal control over financial reporting as of February 29, 2016. In making this assessment, the Company's management used the criteria set forth in the framework in "Internal Control – Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation conducted under the framework in "Internal Control – Integrated Framework (1992)", the Company's management concluded that the Company's internal control over financial reporting was not effective as of February 29, 2016 due to the material weakness described below. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's management determined that the following material weakness existed as of February 29, 2016:

The Company concluded that certain controls over accounting of work in process inventory did not operate with sufficient precision. This material weakness was first identified in the third quarter of fiscal year 2015. Due to the manual nature of the critical inventory accounting process, the work in process inventory is susceptible to material misstatements as there is a significant amount of costing performed in electronic spreadsheets of the Company's work in process inventory. This weakness previously resulted in a material misstatement of work in process inventory and as a result has impacted other financial statement areas including total assets, cost of sales and net income. This control deficiency, if not remediated, could result in a future misstatement of the valuation of work in process inventory.

This Management's Report of Internal Control over Financial Reporting does not include an attestation report of our independent registered public accounting firm due to the exemption provisions established by the results of the Securities and Exchange Commission for smaller reporting companies.

As of February 29, 2016, the Company's Management has implemented the following measures to remediate the internal control deficiency:

Management is engaging an outside consultant with expertise to automate its inventory and will be researching potential software systems to implement automation.

Implementation of a process for 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. The Company is actively seeking an individual with proper qualifications and competency.

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

Analytical review of inventory against expectations and benchmarks designed to identify potential material misstatements in the inventory valuation.

Additionally, the Company now performs inventory valuations quarterly, compared to twice yearly in prior years.

The Company's management believes the foregoing efforts will effectively remediate the material weakness after this control has operated effectively for a reasonable period of time. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine to take additional measures to address the material weakness or determine to modify the remediation plan described above.

Solitron Devices, Inc.

June 15, 2016

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Shareholders of Solitron Devices, Inc.

We have audited the accompanying balance sheets of Solitron Devices, Inc. as of February 29, 2016 and February 28, 2015, and the related statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years ended February 29, 2016 and February 28, 2015. Solitron Devices, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solitron Devices, Inc. as of the years ended February 29, 2016 and February 28, 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended February 29, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Goldstein Schechter Koch, P.A.  
Fort Lauderdale, Florida  
June 15, 2016

## SOLITRON DEVICES, INC.

## BALANCE SHEETS

AS OF FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

	2016	2015
	(in thousands, except for shares)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$634	\$820
Treasury Bills and Certificates of Deposit	6,740	6,971
Accounts receivable, less allowance for doubtful accounts of \$2	528	1,018
Inventories, net (Note 3)	3,671	4,197
Prepaid expenses and other current assets	184	123
<b>TOTAL CURRENT ASSETS</b>	<b>11,757</b>	<b>13,129</b>
 <b>PROPERTY, PLANT AND EQUIPMENT, Net (Note 4)</b>	 436	 458
 <b>OTHER ASSETS</b>	 8	 8
<b>TOTAL ASSETS</b>	<b>\$12,201</b>	<b>\$13,595</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$164	\$425
Customer deposits	28	20
Accrued expenses and other current liabilities (Note 5)	497	632
<b>TOTAL CURRENT LIABILITIES</b>	<b>689</b>	<b>1,077</b>
 <b>TOTAL LIABILITIES</b>	 689	 1,077
 <b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
 <b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value, authorized 500,000 shares, none issued	-	-
Common stock, \$.01 par value, authorized 10,000,000 shares, 2,232,977 shares outstanding, net of 338,257 shares at February 29, 2016 2,185,832 shares outstanding, net of 273,230 shares at February 28, 2015	24	23
Additional paid-in capital	2,759	2,749
Accumulated other comprehensive income	17	15
Retained Earnings	9,266	10,006
Less treasury stock	(554 )	(275 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>11,512</b>	<b>12,518</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$12,201</b>	<b>\$13,595</b>

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

SOLITRON DEVICES, INC.

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

	2016	2015
	(in thousands, except for share and per share amounts)	
Net sales	\$8,395	\$9,757
Cost of sales	6,621	7,225
Gross profit	1,774	2,532
Selling, general and administrative expenses	1,969	1,610
Operating (loss) income	(195	) 922
Other income (expenses):		
Interest income	30	16
Other, net (Note 12)	-	8
Income (Loss) before provision for income taxes	(165	) 946
Provision for income taxes	0	19
Net (loss) income	\$(165	) \$927
Other comprehensive (loss) income		
Unrealized gain on investments	2	1
Total comprehensive (loss) income	\$(163	) \$928
(Loss) income per share from operating (loss) income-Basic	\$(0.07	) \$0.42
(Loss) income per share from operating (loss) income-Diluted	\$(0.07	) \$0.38
Net (loss) income per share-Basic	\$(0.07	) \$0.42
Net (loss) income per share-Diluted	\$(0.07	) \$0.38
Weighted average shares outstanding-Basic	2,245,575	2,183,876
Weighted average shares outstanding-Diluted	2,245,575	2,408,635

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

## SOLITRON DEVICES, INC.

## STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended February 29, 2016 and FEBRUARY 28, 2015

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
	(In thousands, except for number of shares)						
Balance, February 28, 2014	2,177,832	\$ 23	\$ 2,743	\$ 14	\$9,188	\$ (275 )	\$11,693
Employee exercise of stock options	8,000	-	6	-	-	-	6
Dividend	-	-	-	-	(109 )	-	(109 )
Unrealized gain on investments	-	-	-	1	-	-	1
Net income	-	-	-	-	927	-	927
Balance, February 28, 2015	2,185,832	\$ 23	\$ 2,749	\$ 15	\$10,006	\$ (275 )	\$12,518
Employee exercise of stock options	112,172	1	10	-	-	-	11
Dividend	-	-	-	-	(575 )	-	(575 )
Purchase of Treasury Stock	(65,027 )	-	-	-	-	(279 )	(279 )
Unrealized gain on investments	-	-	-	2	-	-	2
Net (loss)	-	-	-	-	(165 )	-	(165 )
Balance, February 29, 2016	2,232,977	\$ 24	\$ 2,759	\$ 17	\$9,266	\$ (554 )	\$11,512

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

SOLITRON DEVICES, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

	2016	2015
	(in thousands)	
Net income (loss)	\$(165)	\$927
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	208	223
Decrease (increase) in operating assets:		
Accounts receivable	490	(233 )
Inventories	526	120
Prepaid expenses and other current assets	(61 )	32
Other assets		(2 )
Increase (decrease) in operating liabilities:		
Accounts payable	(261)	110
Customer deposit	8	(73 )
Accrued expenses and other liabilities	(135)	27
Total adjustments	777	204
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$610</b>	<b>\$1,131</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of Treasury Bills and Certificates of Deposit	733	6,260
Purchases of Treasury Bills and Certificates of Deposit	(500)	(6,970)
Purchase of property, plant and equipment	(186)	(123 )
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>47</b>	<b>(833 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividend paid	(575)	(109 )
Proceeds from exercise of stock options	11	6
Purchase of Treasury Stock	(279)	-
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<b>(843)</b>	<b>(103 )</b>
Net increase (decrease) in cash and cash equivalents	(186)	195
Cash and cash equivalents - beginning of the year	820	625
Cash and cash equivalents - end of the year	\$634	\$820
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$5	\$26



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

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities

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

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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/Certificates of Deposit includes treasury bills with maturities of one year or less, and Certificates of Deposit with maturities from one to three years, 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 Company's available-for-sale investments:

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February 29, 2016

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Short-term investments:				
Treasury Bills	\$1,759	\$ -	\$ -	\$1,756
Certificates of Deposit	4,979	2		4,984
	\$6,738			
Total short-term investments		\$ 2	\$ -	\$6,740

February 28, 2015

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Short-term investments:				
Certificates of deposit	\$6,970	\$ 1	\$ -	\$6,971
Total short-term investments	\$6,970	\$ 1	\$ -	\$6,971

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

At February 29, 2016 and February 28, 2015, the deferred tax liability related to unrecognized gains and losses on short-term investments was \$0.

As of February 29, 2016, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	\$5,092	\$5,094
Maturing one to three years	\$1,648	\$1,646
	\$6,740	\$6,740

Fair Value of Financial Instruments

Accounting Standards Codification (“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 Treasury bills and brokered 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 February 29, 2016 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 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.

Property, Plant and Equipment

Property, plant, and equipment is recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs that do not extend their expected life are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets:

Leasehold Improvements 10 years  
Machinery and Equipment 5 years

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and trade receivables. The Company places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on the accounts. As of February 29, 2016, all non-interest

bearing checking accounts were FDIC insured to a limit of \$250,000. Deposits in excess of FDIC insured limits were approximately \$374,000 at February 29, 2016. With respect to the trade receivables, most of the Company's products are custom made pursuant to contracts with customers whose end-products are sold to the United States Government. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for potential credit losses. Actual losses and allowances have historically been within management's expectations.

### 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.

### Income Taxes

Income taxes are accounted for under the asset and liability method of ASC 740-10, "Income Taxes". Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance.

SOLITRON DEVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

The Company adopted guidance related to accounting for uncertainty in income taxes in accordance with ASC 740-10 and began evaluating tax positions utilizing a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure the benefit to be recorded from tax positions that meet the more-likely-than-not recognition threshold by determining the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement and recognizing that amount in the financial statements. Solitron has adopted ASC 740-10 and no material impact on its financial condition, results of operations, cash flows, or disclosures occurred upon adoption.

### Net (Loss) Income Per Common Share

Net (loss) income per common share is presented in accordance with ASC 260-10 "Earnings per Share." Basic earnings per common share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per common share incorporate the incremental shares issuable upon the assumed exercise of stock options to the extent they are not anti-dilutive using the treasury stock method. Due to the loss, there is no effect from dilution on earnings per share.

### Impairment of long-lived assets

Potential impairments of long-lived assets are reviewed annually or when events and circumstances warrant an earlier review. In accordance with ASC Subtopic 360-10, "Property, Plant and Equipment – Overall," impairment is determined when estimated future undiscounted cash flows associated with an asset are less than the asset's carrying value.

### Financial Statement Estimates

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

### Stock based compensation



The Company records stock-based compensation in accordance with the provisions of ASC Topic 718, "Compensation-Stock Compensation," which establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods or services. Under ASC Topic 718, the Company recognizes an expense for the fair value of outstanding stock options and grants as they vest, whether held by employees or others. No vesting of stock options occurred during the year ended February 29, 2016 or February 28, 2015.

Recent Accounting Pronouncements

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

2. EARNINGS PER SHARE

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

	Fiscal Year Ended	
	February	
	29, 2016	28, 2015
Weighted average common shares outstanding	2,245,575	2,183,876
Dilutive effect of employee stock options	0	224,759
Weighted average common shares outstanding, assuming dilution	2,245,575	2,408,635

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock options. All stock options outstanding as of February 29, 2016 were anti-dilutive. 8,400 of the Company's outstanding stock options for the fiscal year ended February 28, 2015 was 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.

3. INVENTORIES

As of February 29, 2016, inventories consist of the following:

	Gross	Reserve	Net
Raw Materials	\$1,854,000	\$(489,000 )	\$1,365,000
Work-In-Process	3,915,000	(1,775,000)	2,140,000
Finished Goods	980,000	(814,500 )	165,500
Totals	\$6,749,000	\$(3,078,500)	\$3,670,500

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

4. PROPERTY, PLANT AND EQUIPMENT

As of February 29, 2016 and February 28, 2015, property, plant, and equipment consist of the following:

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	2016	2015
Leasehold Improvements	\$227,000	\$227,000
Machinery and Equipment	3,304,000	3,118,000
Subtotal	3,531,000	3,345,000
Less: Accumulated Depreciation and Amortization	(3,095,000)	(2,887,000)
Net Property, Plant and Equipment	\$436,000	\$458,000

Depreciation and amortization expense was \$208,000 and \$223,000 for the years ended 2016 and 2015, respectively and is included in Cost of Sales in the accompanying Statements of Income.

SOLITRON DEVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

## 5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of February 29, 2016 and February 28, 2015, accrued expenses and other current liabilities consist of the following:

	2016	2015
Payroll and related employee benefits	\$447,000	\$575,000
Income taxes	-	15,000
Property taxes	10,000	7,000
Other liabilities	40,000	35,000
Totals	\$497,000	\$632,000

## 6. INCOME TAXES

At February 29, 2016, the Company has net operating loss carryforwards of approximately \$10,122,000 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 February 29, 2016 and February 28, 2015:

Deferred Tax Asset (Liability):	2016	2015
Current		
Allowance for doubtful accounts	\$1,000	\$1,000
Inventory allowance	1,170,000	1,044,000
Section 263A capitalized costs	118,000	85,000
Total current deferred tax assets	1,289,000	1,130,000
Valuation allowance	(1,289,000)	(1,130,000)
	\$0	\$0

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Long-term		
Loss carryforwards	\$3,846,000	\$3,959,000
Depreciation	(41,000 )	(31,000 )
Total long-term deferred tax assets	3,805,000	3,928,000
Valuation allowance	(3,805,000)	(3,928,000)
	\$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 years ended February 29, 2016 and February 28, 2015.

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate for fiscal year ended February 29, 2016 and February 28, 2015 is as follows:

	2016	2015
U.S. federal statutory rate	34.0 %	34.0 %
Change in valuation allowance	(34.0)	(34.0)
Alternative Minimum Taxes	0.00	2.0
Effective income tax rate	0.00 %	2.0 %

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

7. STOCK OPTIONS

The Company's 2000 Stock Option Plan provides that stock options are valid for ten years and vest twelve months after the award date unless otherwise stated in the option awards. The 2000 Stock Option Plan terminated pursuant to its terms in July 2010. The Company's 2007 Stock Incentive Plan allows the Company to grant common stock, options, restricted stock, and stock appreciation rights to eligible individuals. As of February 29, 2016, the Company had not granted any awards under the 2007 Stock Incentive Plan.

On January 23, 2006, the Board of Directors granted stock options to certain key employees and directors. The options, which became vested on January 23, 2007, were for a total of 14,700 shares and the exercise price was fixed at \$3.95 per share, which was the price on the OTCBB at the time of the grant. The options were exercisable through January 23, 2016. The remaining options balance is -0- as of February 29, 2016.

On May 16, 2005, the Board of Directors granted stock options to certain key employees and directors. The options, which became vested on May 15, 2006, were for a total of 47,000 shares and the exercise price was fixed at \$0.75 per share, which was the price on the OTCBB at the time of the grant. The options were exercisable through May 15, 2015. The remaining options balance was -0- as of February 29, 2016. There are no options from this grant that remain outstanding.

On May 17, 2004, the Board of Directors granted stock options to certain key employees and directors. The options, which became vested on May 16, 2005, were for a total number of 47,500 shares and the exercise price was fixed at \$1.05 per share, which was the price on the OTCBB at the time of the grant. The options were exercisable through May 16, 2014. There are no options from this grant that remain outstanding.

On May 17, 2004, the Board of Directors awarded the Company's President options totaling 175,636 shares, which are fully vested. The exercise price of these options was fixed at \$1.05 per share (the closing price on the OTCBB at the time of the grant). The remaining options balance is 35,449 as of February 29, 2016.

In December 2000, a grant equal to 10% of the outstanding shares (254,624) was made to the Company's President at the exercisable price of \$0.40 per share (the closing stock price on the date of the grant). Fifty percent (50%) of the

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total number of shares was immediately exercisable and the other 50% vested in five equal installments over the following five years. All of these options are fully vested. The remaining options balance is 254,624 as of February 29, 2016.

Below is a summary of the Company's Stock Option Activity:

	Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, February 28, 2014	448,560	\$ 0.74	2.61	1,496,000
Expired	(900 )			
Exercised	(8,000 )			
Balance, February 28, 2015	439,660	0.73	1.94	1,570,341
Expired	(8,100 )			
Exercised	(141,487 )			
Balance, February 29, 2016	290,073	\$ 0.48	\$ ----	948,703

No options were granted in the years ended February 29, 2016 and February 28, 2015.

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

On June 18, 2015 the CEO exercised a portion of his options for 140,187 shares, of which 29,315 shares were withheld by the Company to cover the federal income taxes due upon exercising, and as a result the Company issued 110,872 shares.

All of the Company's outstanding options were vested as of February 29, 2016. No options vested during the years ended February 29, 2016 and February 28, 2015.

The following table summarizes information about stock options outstanding and exercisable at February 29, 2016:

Range of Exercise Prices	Options Outstanding			Exercisable Options		
	Number of Outstanding Options	Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	
\$0.400	\$0.400	254,624	Evergreen	\$ 0.40	254,624	\$ 0.40
\$1.050	\$1.050	35,449	Evergreen	\$ 1.05	35,449	\$ 1.05
		290,073		\$ 0.48	290,073	\$ 0.48

All options with a remaining contractual life outstanding are fully vested.

## 8. EMPLOYEE BENEFIT PLANS

The Company has a 401k and Profit Sharing Plan (the "Profit Sharing Plan") in which substantially all employees may participate after three months of service. Contributions to the Profit Sharing Plan by participants are voluntary. The Company may match participant's contributions up to 25% of 4% of each participant's annual compensation. In addition, the Company may make additional contributions at its discretion. The Company did not contribute to the Profit Sharing Plan during the fiscal years ended February 29, 2016 and February 28, 2015.



## 9. EXPORT SALES AND MAJOR CUSTOMERS

Revenues from domestic and export sales to unaffiliated customers for the year ended February 29, 2016 are as follows:

Geographic Region	Power		Field	Power		Totals
	Transistors	Hybrids	Effect	Transistors	MOSFETS	
Europe and Australia	\$0	\$0	\$ 20,000	\$0		\$20,000
Canada and Latin America	27,000	0	25,000	40,000		92,000
Far East and Middle East	22,000	5,000	72,000	432,000		531,000
United States	1,357,000	3,758,000	447,000	2,190,000		7,752,000
Totals	\$1,406,000	\$3,763,000	\$ 564,000	\$2,662,000		\$8,395,000

Revenues from domestic and export sales to unaffiliated customers for the year ended February 28, 2015 are as follows:

Geographic Region	Power		Field	Power		Totals
	Transistors	Hybrids	Effect	Transistors	MOSFETS	
Europe and Australia	\$0	\$904,000	\$ 10,000	\$0		\$914,000
Canada and Latin America	47,000	0	20,000	13,000		80,000
Far East and Middle East	18,000	0	40,000	481,000		539,000
United States	1,313,000	4,586,000	278,000	2,047,000		8,224,000
Totals	\$1,378,000	\$5,490,000	\$ 348,000	\$2,541,000		\$9,757,000

SOLITRON DEVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

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

Sales to the Company's top two customers accounted for 62% of net sales for the year ended February 29, 2016 as compared with 63% of the Company's net sales for the year ended February 28, 2015. Sales to Raytheon Company accounted for approximately 49% of net sales for the year ended February 29, 2016 and 48% for the year ended February 28, 2015. Sales to the second largest customer, the United States Government, for the years ended February 29, 2016 and February 28, 2015 accounted for 13% and 15% of net sales respectively.

### 10. MAJOR SUPPLIERS

For the year ended February 29, 2016, purchases from the Company's top supplier, Egide USA Inc. accounted for 15% of the Company's total purchases of production materials, and all other suppliers were individually less than 9% of purchases. For the year ended February 28, 2015, purchases from the Company's two top suppliers, Egide USA Inc. and Wuxi Streamtek Ltd., accounted for 30% of the Company's total purchases of production materials.

### 11. COMMITMENTS AND CONTINGENCIES

#### Employment Agreement

In December 2000, the Company entered into a five-year employment agreement with its President. On January 14, 2013, the Company amended the employment agreement with its President. This agreement provides, among other things, for annual compensation of \$240,000 and a bonus pursuant to a formula. The agreement stipulates that the President shall be entitled to a bonus equal to fifteen percent (15%) of the Company's pre-tax income in excess of Two Hundred Fifty Thousand Dollars (\$250,000). For purposes of the agreement, "pre-tax income" shall mean net income before taxes, excluding (i) all extraordinary gains or losses, (ii) gains resulting from debt forgiven associated with the buyout of unsecured creditors, and (iii) any bonuses paid to the President. The bonus payable thereunder shall be paid within ninety (90) days after the end of the fiscal year.

On January 14, 2014 the President exercised a cost-of-living increase clause in his contract increasing his annual base salary to \$296,500.

On December 5, 2014, the Compensation Committee approved an increase to Mr. Saraf's annual base salary to \$321,500, effective December 1, 2014.

The Company accrued \$105,000 as a bonus to Mr. Saraf for the fiscal year ended February 28, 2015.

On December 22, 2015, the Compensation Committee approved the contractual cost-of-living increase to Mr. Saraf's annual base salary of 0.5%, resulting in an annual base salary of \$323,107.

The Company has not accrued any bonus for Mr. Saraf in fiscal year 2016.

The President's employment agreement stipulates, in Article 2.2, "Option to Extend", that the contract is automatically extended for one year periods unless a notice is given by either party at least 180 days prior to the expiration of the term or any extensions.

Upon execution of the agreement, the President received a grant of options to purchase ten percent (10%) of the outstanding shares of the Company's common stock, par value \$.01 calculated on a fully diluted basis, at an exercise price per share equal to the closing asking price of the Company's common stock on the OTCBB on the date of the grant (\$0.40). Fifty percent (50%) of the Initial Stock Options granted were vested immediately upon grant. The remaining fifty percent (50%) of the Initial Stock Options vested in equal amounts on each of the first five anniversaries of the date of grant. These options were fully vested during the year ended February 28, 2006.

Since November, 2, 2015, the Company reduced all exempt employees' annual salaries (paid in weekly installments), including the President's salary, by 10%, giving the President an effective annual salary of \$291,000.

SOLITRON DEVICES, INC.

NOTES TO FINANCIAL STATEMENTS

As part of the Company's decision, starting November 2, 2015, to reduce the work week schedule to 36 hours, the President voluntarily agreed to the temporary reduction to work schedule and salary which is still in effect.

Operating leases:

On October 1, 2015, the Company extended its current lease with its landlord, CF EB REO II LLC, for the occupancy and use of its 47,000 square foot facility located at 3301 Electronics Way, West Palm Beach, Florida 33407 (the "Lease"). The property subsequently was sold to La Boheme Properties, Inc., a Florida corporation, which is the current landlord as the Lease was assigned to them. The term of the Lease ends on December 31, 2021. The base rent provided in the Lease is \$34,451 per month. The Company has the option to extend the term of the Lease for an additional five years beginning on January 1, 2022 and ending on December 31, 2026.

Commencing on January 1, 2016 and on the first day of January of every subsequent year, the base rent will be increased to compensate for changes in the cost of living, provided that in no event will the base rent be increased by less than three percent nor more than five percent annually. Future minimum lease payments for this non-cancelable operating lease are as follows:

Fiscal Year Ending February 28/29	Amount
2017	\$427,000
2018	\$440,000
2019	\$454,000
2020	\$467,000
2021	\$481,000
thereafter	\$411,000

Rent expense for the fiscal years ended February 29, 2016 and February 28, 2015 was approximately \$415,000 and \$370,000, respectively.

12. OTHER INCOME

During the fiscal year ended February 29, 2016, the Company recognized no other income.

During the fiscal year ended February 28, 2015, the Company recognized approximately \$8,000 of other income attributable to cancellation of debt.

### 13. STOCKHOLDERS' EQUITY

On May 29, 2015 the 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.

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.

In November 2015, pursuant to the Company's previously authorized stock repurchase program, the Company repurchased 65,027 shares of outstanding common stock at \$4.30 per share from a stockholder in a privately negotiated transaction for an aggregate price of approximately \$280,000

On January 15, 2016, the Board of Directors amended the Company's previously authorized stock repurchase program. Under the Company's previously authorized stock repurchase program, the Company was authorized to repurchase 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. Under the amended stock repurchase program, the Company may acquire up to \$1,000,000 of its outstanding common stock from time to time, increasing the Company's authorization from the \$720,000 remaining and eliminating the expiration date of February 29, 2016. Purchases under the amended stock repurchase program may be made through the open market or 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 variety of factors including price, corporate and regulatory requirements and other conditions.

In July 2015, the Company paid a dividend of \$0.25 per share to all stockholders of record as of the close of business on June 29<sup>th</sup>, 2015. The aggregate dividend payment was approximately \$575,000.

During the fiscal year ending February 29<sup>th</sup>, 2016 an aggregate of 112,172 shares of employee stock options were exercised. The company received approximately \$11,000 for exercise of those options.

#### 14. SUBSEQUENT EVENTS

There are no subsequent events to report. Management has evaluated the subsequent events through June 15, 2016, the date the financial statements were issued.

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

None.

ITEM 9A. 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 Annual Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of February 29, 2016 due to the material weakness described above under “Management’s Report on Internal Control over Financial Reporting”. However, giving full consideration to the material weakness and the remediation plan, the Company’s management has concluded that the Company’s financial statements included in this Annual Report fairly present, in all material respects, the Company’s financial condition and results of operations as of and for the year ended February 29, 2016.

**Changes in Internal Control over Financial Reporting.**

Other than the changes referenced above 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 fourth quarter ended February 29, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS , EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016.

ITEM 11. EXECUTIVE  
COMPENSATION

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders or Part III of an amendment to the registrant's Form 10-K to be filed with the SEC within 120 days after the end of the fiscal year ended February 29, 2016.





PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Reference is made to the Index set forth on Page 24 of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules

All schedules have been omitted because they are inapplicable or the information is provided in the consolidated financial statements, including the notes hereto.

(a)(3) Exhibits

- 3.1 Certificate of Incorporation of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 3.2 Bylaws of the Company (incorporated by reference to the Company's Form 10-K for the year ended February 28, 1993).
- 3.3 Amendment No. 1 to the Bylaws of Solitron Devices, Inc. (incorporated by reference to the Company's Form 8-K dated December 12, 2007).
- 3.4 Amendment No. 2 to the Bylaws of Solitron Devices, Inc. (incorporated by reference to the Company's Form 8-K filed on April 23, 2013).
- 4.1 Rights Agreement dated as of May 29, 2012, between Solitron Devices, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to the Company's Form 10-K for the year ended February 29, 2012).
- 10.6+ Employment Agreement, dated December 1, 2000, between Solitron Devices, Inc. and Shevach Saraf (incorporated by reference to the Company's Form 10-K for the year ended February 28, 2001)
- 10.8+ Solitron Devices, Inc. 2007 Stock Incentive Plan (incorporated by reference to the Company's Form 8-K dated June 8, 2007, as amended by the Company's Form 8-K/A, dated June 12, 2007).
- 10.9 Commercial Lease Agreement, dated October 1, 2014, between Solitron Devices, Inc. and CF EB REP II LLC (assigned to LaBoheme Properties, Inc., as the successor landlord, incorporated by reference to the Company's Form 8-K dated October 8, 2014).
- 10.11+ Employment Agreement Amendment, dated January 14, 2013, by and between Solitron Devices, Inc. and Shevach Saraf (incorporated by reference to the Company's Form 10-Q for the quarter ended November 30, 2012).
- 10.12+

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Stand-Alone Option Grant Agreement between the Company and Mr. Saraf (incorporated by reference to the Company's Form S-8 filed on April 9, 2015).

10.13+ Stand-Alone Option Grant Agreement between the Company and Mr. Saraf (incorporated by reference to the Company's Form S-8 filed on April 9, 2015).

23.1\* Consent of Goldstein, Schechter, Koch.

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

+Management contracts or compensatory plans, contracts or arrangements.

\* Filed herewith.

\*\* Furnished herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ Shevach Saraf

By: Shevach Saraf

Title: Chairman of the Board, President,

Chief Executive Officer, Treasurer and

Chief Financial Officer

(Principal executive officer and

principal financial officer)

Date: June 15, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Shevach Saraf Shevach Saraf	Chairman of the Board, President, Chief Executive Officer, Treasurer and Chief Financial Officer. (Principal executive officer and principal financial officer)	June 15, 2016
/s/ Dwight Aubrey Dwight Aubrey	Director	June 15, 2016
/s/ John F. Chiste John F. Chiste	Director	June 15, 2016
/s/ Tim Eriksen Tim Eriksen	Director	June 15, 2016
/s/ David W. Pointer David W. Pointer	Director	June 15, 2016



## EXHIBIT INDEX

### EXHIBIT DESCRIPTION

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