

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended May 31, 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
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

33407
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of July 8, 2016 was 2,232,977.

SOLITRON DEVICES, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOLITRON DEVICES, INC.
CONDENSED BALANCE SHEETS

AS OF MAY 31, 2016 AND FEBRUARY 29, 2016

(unaudited)

May 31, Feb 29,
2016 2016

(in thousands, except for shares)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 507	\$ 634
Treasury bills and certificates of deposit	6,482	6,740
Accounts receivable, less allowance for doubtful accounts of \$2	806	528
Inventories, net (Note 4)	3,850	3,671
Prepaid expenses and other current assets	<u>198</u>	<u>184</u>
TOTAL CURRENT ASSETS	11,843	11,757

PROPERTY, PLANT AND EQUIPMENT, net	471	436
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OTHER ASSETS	<u>8</u>	<u>8</u>
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TOTAL ASSETS	<u>\$ 12,322</u>	<u>\$ 12,201</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 455	\$ 164
Customer deposits	17	28
Accrued expenses and other current liabilities (Note 6)	<u>490</u>	<u>497</u>
TOTAL CURRENT LIABILITIES	962	689

TOTAL LIABILITIES	<u>962</u>	<u>689</u>
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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock, \$.01 par value, authorized 500,000 shares, none issued	-	-
Common stock, \$.01 par value, authorized 10,000,000 shares, 2,232,977 and 2,232,977 shares issued and outstanding, net of 338,257 shares of treasury stock as of May 31, 2016 and February 29, 2016 respectively	24	24
Additional paid-in capital	2,759	2,759
Accumulated other comprehensive income	8	17
Retained earnings	9,123	9,266
Less treasury stock	<u>(554)</u>	<u>(554)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>11,360</u>	<u>11,512</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 12,322</u>	<u>\$ 12,201</u>

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

SOLITRON DEVICES, INC.
CONDENSED STATEMENTS OF INCOME
THREE MONTHS ENDED MAY 31, 2016 AND MAY 31, 2015
(Unaudited)

	<u>2016</u>	<u>2015</u>
	(in thousands, except for share and per share amounts)	
Net sales	\$ 1,813	\$ 2,383
Cost of sales	<u>1,454</u>	<u>1,880</u>
Gross profit	359	503
Selling, general and administrative expenses	<u>512</u>	<u>466</u>
Operating (loss) income	(153)	37
Other income (expenses):		
Interest income	10	5
(Loss) Income before provision for income taxes	(143)	42
Provision for income taxes	<u>-</u>	<u>7</u>
Net (loss) income	\$ (143)	\$ 35
Other comprehensive (loss) income:		
Unrealized (loss) gain on investments	<u>(9)</u>	<u>2</u>
Total comprehensive (loss) income	<u>\$ (152)</u>	<u>\$ 37</u>
(Loss) income per share from operating (loss) income-Basic	<u>\$ (0.07)</u>	<u>\$ 0.02</u>
(Loss) income per share from operating (loss) income-Diluted	<u>\$ (0.07)</u>	<u>\$ 0.01</u>
Net (loss) income per share-Basic	<u>\$ (0.06)</u>	<u>\$ 0.02</u>
Net (loss) income per share-Diluted	<u>\$ (0.06)</u>	<u>\$ 0.02</u>
Weighted average shares outstanding-Basic	<u>2,232,977</u>	<u>2,187,132</u>
Weighted average shares outstanding-Diluted	<u>2,232,977</u>	<u>2,411,137</u>

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

SOLITRON DEVICES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MAY 31, 2016 AND MAY 31, 2015
(Unaudited)

	<u>2016</u>	<u>2015</u>
	(in thousands)	
Net (loss) income	\$ (143)	\$ 35
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	45	51
Decrease (increase) in operating assets:		
Accounts receivable	(278)	111
Inventories, net	(179)	349
Prepaid expenses and other current assets	(14)	(87)
Increase (decrease) in operating liabilities:		
Accounts payable	291	(200)
Customer deposits	(11)	4
Accrued expenses and other liabilities	(7)	168
Total adjustments	<u>(153)</u>	<u>396</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(296)</u>	<u>431</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of treasury bills and certificates of deposit	249	1,754
Purchases of treasury bills and certificates of deposit	-	(1,995)
Purchases of property, plant and equipment	<u>(80)</u>	<u>(83)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>169</u>	<u>(324)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash from exercise of employee stock options	<u>-</u>	<u>2</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>-</u>	<u>2</u>
 Net increase (decrease) in cash and cash equivalents	(127)	109
Cash and cash equivalents – beginning of the period	<u>634</u>	<u>820</u>
Cash and cash equivalents - end of the period	<u>\$ 507</u>	<u>\$ 929</u>

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

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Activities

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

Basis of Presentation

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

The unaudited condensed financial information furnished herein reflects all adjustments, consisting of normal recurring items that, in the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. The results of operations for the three months ended May 31, 2016 are not necessarily indicative of the results to be expected for the year ending February 28, 2017.

The information included in this Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended February 29, 2016.

Cash and Cash Equivalents

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

Investment in Treasury Bills and Certificates of Deposit

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

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

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

Total Face Value as of 5/31/16 (in thousands)	
Treasury bills	\$ 1,759
Certificates of deposit	4,732
	<u>\$ 6,491</u>

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

As of May 31, 2016, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

	Face value		Fair Value
	(In thousands)		(In thousands)
Maturing within one year	\$ 5,094		\$ 5,090
Maturing within two years	<u>1,397</u>		<u>1,392</u>
	<u>\$ 6,491</u>		<u>\$ 6,482</u>

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 brokered Treasury bills and certificates of deposits are subject to Level 1 fair value measurement.

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

Accounts Receivable

Accounts receivable consists of unsecured credit extended to the Company’s customers in the ordinary course of business. The Company reserves for any amounts deemed to be uncollectible based on past collection experiences and an analysis of outstanding balances, using an allowance account. The allowance amount was \$2,000 as of May 31, 2016 and February 29, 2016.

Shipping and Handling

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

Inventories

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

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

The Company's inventory valuation policy is as follows:

- Raw material /Work in process: All material purchased, processed, and/or used in the last two fiscal years is valued at the lower of its acquisition cost or market. All material not purchased/used in the last two fiscal years is fully reserved.
- Finished goods: All finished goods with firm orders for later delivery are valued (material and overhead) at the lower of cost or market. All finished goods with no orders are fully reserved.
- Direct labor costs: Direct labor costs are allocated to finished goods and work in process inventory based on engineering estimates of the amount of man-hours required from the different direct labor departments to bring each device to its particular level of completion.

Revenue Recognition

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

Financial Statement Estimates

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

Recent Accounting Pronouncements

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

2. ENVIRONMENTAL REGULATION

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

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.

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

3. EARNINGS PER SHARE

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

	<u>For the three months ended May</u>	
	<u>31,</u>	
	<u>2016</u>	<u>2015</u>
Weighted average common shares outstanding	2,232,977	2,187,132
Dilutive effect of employee stock options	-	<u>224,005</u>
Weighted average common shares outstanding, assuming dilution	<u>2,232,977</u>	<u>2,411,137</u>

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

4. INVENTORIES

As of May 31, 2016, inventories consist of the following:

	<u>Gross</u>	<u>Reserve</u>	<u>Net</u>
Raw Materials	\$ 1,927,000	\$ (455,000)	\$ 1,472,000
Work-In-Process	4,026,000	(1,766,000)	2,260,000
Finished Goods	<u>942,000</u>	<u>(824,000)</u>	<u>118,000</u>
Totals	<u>\$ 6,895,000</u>	<u>\$(3,045,000)</u>	<u>\$ 3,850,000</u>

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

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

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

5. INCOME TAXES

At May 31, 2016, the Company has net operating loss carryforwards of approximately \$10,037,000 that expire through February 2036. 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 May 31, 2016 and February 29, 2016:

Deferred Tax Asset (Liability):	<u>5/31/16</u>	<u>2/29/16</u>
Current		
Allowance for doubtful accounts	\$ 1,000	\$ 1,000
Inventory allowance	1,160,000	1,170,000
Section 263A capitalized costs	<u>64,000</u>	<u>118,000</u>
Total current deferred tax assets	1,225,000	1,289,000
Valuation allowance	<u>(1,225,000)</u>	<u>(1,289,000)</u>
	<u>\$ -</u>	<u>\$ -</u>
Long-term		
Loss carryforwards	\$ 3,814,000	\$ 3,846,000
Depreciation	<u>(8,100)</u>	<u>(41,000)</u>
Total long-term deferred tax assets	3,805,900	3,805,000
Valuation allowance	<u>(3,805,900)</u>	<u>(3,805,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The change in the valuation allowance on deferred tax assets is due principally to the utilization of the net operating loss for the period ended May 31, 2016 and the year ended February 29, 2016. A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate for the quarter ended May 31, 2016 and for the year ended February 29, 2016 is as follows:

	<u>5/31/16</u>	<u>2/29/16</u>
U.S. federal statutory rate	34.0%	34.0%
Change in valuation allowance	(34.0)	(34.0)
Alternative minimum taxes	<u>0.0</u>	<u>0.0</u>
Effective income tax rate	<u>0.0 %</u>	<u>0.0 %</u>

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of May 31, 2016 and February 29, 2016, accrued expenses and other liabilities consisted of the following:

	<u>5/31/16</u>	<u>2/29/16</u>
Payroll and related employee benefits	\$461,000	\$447,000
Property taxes	21,000	10,000
Other liabilities	<u>8,000</u>	<u>40,000</u>
	<u>\$490,000</u>	<u>\$497,000</u>

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

7. EXPORT SALES AND MAJOR CUSTOMERS

Revenues from domestic and export sales to unaffiliated customers for the three months ended May 31, 2016 are as follows:

<u>Geographic Region</u>	<u>Power Transistors</u>	<u>Hybrids</u>	<u>Field Effect Transistors</u>	<u>Power MOSFETS</u>	<u>Totals</u>
Europe and Australia	\$0	\$0	\$0	\$0	\$ 0
Canada and Latin America	0	0	0	0	0
Far East and Middle East	0	0	5,000	83,000	88,000
United States	<u>228,000</u>	<u>1,280,000</u>	<u>125,000</u>	<u>92,000</u>	<u>1,725,000</u>
Totals	<u>\$228,000</u>	<u>\$1,280,000</u>	<u>\$130,000</u>	<u>\$175,000</u>	<u>\$1,813,000</u>

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

<u>Geographic Region</u>	<u>Power Transistors</u>	<u>Hybrids</u>	<u>Field Effect Transistors</u>	<u>Power MOSFETS</u>	<u>Totals</u>
Europe and Australia	\$0	\$0	\$6,000	\$0	\$ 6,000
Canada and Latin America	9,000	0	0	0	9,000
Far East and Middle East	0	0	14,000	86,000	100,000
United States	<u>464,000</u>	<u>1,149,000</u>	<u>79,000</u>	<u>576,000</u>	<u>2,268,000</u>
Totals	<u>\$473,000</u>	<u>\$1,149,000</u>	<u>\$99,000</u>	<u>\$662,000</u>	<u>\$2,383,000</u>

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

For the quarter ended May 31, 2016, sales to the Company's top three customers consisted of the following:

<u>Customer</u>	<u>% of Sales</u>
Raytheon Company	68%
United States Government	5%
Celestica Technologies	<u>5%</u>
	<u>78%</u>

For the quarter ended May 31, 2015, sales to the Company's top two customers consisted of the following:

<u>Customer</u>	<u>% of Sales</u>
Raytheon Company	58%
United States Government	<u>18%</u>
	<u>76%</u>

SOLITRON DEVICES, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

8. MAJOR SUPPLIERS

For the quarter ended May 31, 2016, purchases from the Company's top five vendors consisted of the following:

<u>Vendor</u>	<u>% of Purchases</u>
Stellar Industries	12%
Semidice	12%
Air Products	9%
Egide	6%
Streamtek	<u>5%</u>
	<u>44%</u>

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

<u>Vendor</u>	<u>% of Purchases</u>
Egide, USA	24%
Stellar Industries	<u>17%</u>
	<u>41%</u>

9. COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year Ending February 28/29</u>	<u>Amount</u>
2017	320,000
2018	440,000
2019	454,000
2020	467,000
2021	481,000
Thereafter	<u>411,000</u>
	<u>\$2,573,000</u>

10. DIVIDEND

In connection with the fiscal year ended February 29, 2016, the Board of Directors of the Company has not declared a cash dividend. In July 2015, the Company paid a dividend of \$0.25 per share to all stockholders of record at the close of business on June 29, 2015. The aggregate dividend payment was approximately \$575,000.

11. STOCK REPURCHASE PROGRAM

On May 29, 2015, the Board of Directors of the Company authorized a stock 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 on the open market or in privately negotiated transactions depending on market conditions, stock price, corporate and regulatory requirements, and other factors. The Company did not repurchase any outstanding common stock in the quarter ended May 31, 2016.

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

Overview:

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

The following discussion and analysis of factors which have affected the Company's financial position and operating results during the periods included in the accompanying unaudited condensed financial statements should be read in conjunction with the Financial Statements and the related Notes to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended February 29, 2016 and the Unaudited Condensed Financial Statements and the related Notes to Unaudited Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Significant Accounting Policies:

The discussion and analysis of our financial condition and results of operations are based upon the unaudited condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q which are prepared in accordance with accounting principles generally accepted in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies include cash and cash equivalents, investment in Treasury bills and Certificates of Deposit, revenue recognition, earnings per common share, shipping and handling, and inventories. A discussion of these critical accounting policies are included in Note 1 of the "Notes To Financial Statements" in Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

Trends and Uncertainties:

During the three months ended May 31, 2016, the Company's book-to-bill ratio was approximately .28 as compared to approximately .67 for the three months ended May 31, 2015, reflecting a decrease in the volume of orders booked. The Company does not believe that, in most years, the year-to-year change in the book-to-bill ratio indicates a specific trend in the demand for the Company's products. Generally, the intake of orders over the last twenty four months has varied greatly as a result of the fluctuations in the general economy, variations in defense spending on programs the Company supports, and the timing of contract awards by the Department of Defense and subsequently by its prime contractors, which is expected to continue over the next twelve to twenty four months. Subsequent to the three months ended May 31, 2016, the Company has been advised by certain of its key customers that they are currently experiencing delays in receiving contract awards from the U.S. government and delays in foreign military sales, and they anticipate these delays may continue into the first quarter of calendar year 2017. The Company expects these delays may impact the Company's level of bookings over the corresponding period. The Company continues to identify means intended to reduce its variable manufacturing costs to offset the potential impact of low volume of orders to be shipped. However, should order intake continue to fall drastically in the coming periods, the Company might be required to implement further cost cutting or other downsizing measures to continue profitable business operations.

Inventories

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

The Company's inventory valuation policy is as follows:

- Raw material /Work in process: All material purchased, processed and/or used in the last two fiscal years is valued at the lower of its acquisition cost or market. All material not purchased/used in the last two fiscal years is fully reserved.
- Finished goods: All finished goods with firm orders for later delivery are valued (material and overhead) at the lower of cost or market. All finished goods with no orders are fully reserved.
- Direct labor costs: Direct labor costs are allocated to finished goods and work in process inventory based on engineering estimates of the amount of man hours required from the different direct labor departments to bring each device to its particular level of completion.

Results of Operations-Three Months Ended May 31, 2016 Compared to Three Months Ended May 31, 2015:

Net sales for the three months ended May 31, 2016 decreased 24% to \$1,813,000 as compared to \$2,383,000 for the three months ended May 31, 2015. This decrease was primarily attributable to a decrease in the level of orders of products that were shipped in accordance with customer requirements.

Cost of sales for the three months ended May 31, 2016 decreased 23% to \$1,454,000 as compared to \$1,880,000 for the three months ended May 31, 2015, mostly due to the lower level of sales. Expressed as a percentage of sales, cost of sales increased to 80% as compared to 79% for the same period in 2015.

Gross profit for the three months ended May 31, 2016 decreased to \$359,000 from \$503,000 for the three months ended May 31, 2015, mostly due to the lower level of sales. Accordingly, gross margins on the Company's sales decreased to 20% for the three months ended May 31, 2016 from 21% for the three months ending May 31, 2015.

For the three months ended May 31, 2016, the Company shipped 20,829 units as compared to 19,804 units shipped during the same period of the prior year. It should be noted that since the Company manufactures a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in the Company's volume of units shipped should not be regarded as a reliable indicator of the Company's performance.

For the three months ended May 31, 2016, the Company's backlog of open orders decreased 22% to \$4,532,000 as compared to the backlog of \$5,832,000 as of February 29, 2016. The Company's backlog as of May 31, 2016 is 29% lower than the backlog as of May 31, 2015. Changes in backlog reflect changes in the intake of orders and in the delivery requirements of customers.

The Company has experienced a decrease of 68% to \$513,000 in the level of bookings during the three months ended May 31, 2016 as compared to the three months ended May 31, 2015. The decrease in bookings for the three months ended May 31, 2016 is principally a result of a decrease in the placement of orders by key customers, resulting from delays in the award of contracts by the Department of Defense to its prime contractors.

Selling, general, and administrative expenses increased 10% to \$512,000 for the three months ended May 31, 2016 from \$466,000 for the three months ended May 31, 2015. The increase reflects higher wages, consulting fees, director fees and directors and officers liability insurance premiums. During the three months ended May 31, 2016, selling, general, and administrative expenses as a percentage of net sales increased to 28% as compared with 20% for the three months ended May 31, 2015.

Operating (loss) for the three months ended May 31, 2016 was (\$153,000) as compared to operating income of \$37,000 for the three months ended May 31, 2015. This decrease is due primarily to lower sales and higher selling, general and administrative expenses.

Interest income for the three months ended May 31, 2016 increased to \$10,000 as compared to \$5,000 for the three months ended May 31, 2015. This change is due primarily to the rate of return on funds invested in certificates of deposit and treasury bills.

The Company had no other income for the quarters ended May 31, 2016 and ended May 31, 2015.

Total comprehensive (loss) for the three months ended May 31, 2016 was (\$152,000) as compared to total comprehensive income of \$37,000 for the three months ended May 31, 2015. This decrease is due primarily to an increase in selling, general and administrative expenses.

Liquidity and Capital Resources:

Operating Activities:

Net cash used in operating activities was \$296,000 for the three months ended May 31, 2016 primarily reflecting a net loss of \$143,000, depreciation of \$45,000, \$179,000 of higher inventories, \$278,000 of higher accounts receivable and \$291,000 of higher accounts payable.

Net cash provided by operating activities was \$431,000 for the three months ended May 31, 2015 principally reflecting net income of \$35,000, depreciation of \$51,000 and \$349,000 of lower inventories.

Investing Activities:

Net cash provided by investing activities was \$169,000 for the three months ended May 31, 2016 principally reflecting \$249,000 in sales of treasury bills and certificates of deposit, and \$80,000 in purchases of property, plant and equipment.

Net cash used in investing activities was \$324,000 for the three months ended May 31, 2015 principally reflecting \$1,754,000 in sales of treasury bills and certificates of deposit, \$1,995,000 in purchases of treasury bills and certificates of deposit, and \$83,000 in purchases of property, plant and equipment.

Financing Activities:

Net cash provided by financing activities was \$-0- for the three months ended May 31, 2016.

Net cash provided by financing activities was \$2,000 for the three months ended May 31, 2015 principally reflecting \$2,000 from stock options exercised by the Company's employees.

Subject to the following discussion, the Company expects its liquidity over the next twelve months to come from cash generated from operations, cash on hand and cash invested in Treasury bills and certificates of deposit. The Company anticipates that its capital expenditures required to sustain operations will be approximately \$180,000 during the balance of the current fiscal year and will be funded from operations.

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

Over the long-term, based on these factors and at the current level of bookings, costs of raw materials and services, profit margins and sales levels, the Company believes that it will generate sufficient cash from operations to satisfy its operating needs 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 and provide further opportunities for growth.

At May 31, 2016, February 29, 2016 and May 31, 2015, the Company had cash on hand of approximately \$507,000, \$634,000 and \$929,000, respectively. The cash decrease for the three months ended May 31, 2016 was primarily due to lower revenues.

At May 31, 2016, February 29, 2016 and May 31, 2015, the Company had investments in treasury bills and certificates of deposit of approximately \$6,491,000, \$6,740,000 and \$7,212,000, respectively.

At May 31, 2016, the Company had working capital of \$10,881,000 as compared with a working capital at February 29, 2016 of \$11,068,000. The decrease for the three months ended May 31, 2016 was primarily due to increases in accrued expenses.

Capital Allocation:

Cash Dividend:

In connection with the fiscal year ended February 29, 2016, the Board of Directors of the Company has not declared a cash dividend. In July 2015, the Company paid a dividend of \$0.25 per share to all stockholders of record at the close of business on June 29, 2015. The aggregate dividend payment was approximately \$575,000.

Stock Repurchase Program:

On May 29, 2015, the Company also 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 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 on the open market or in privately negotiated transactions depending on markets conditions, stock price, corporate and regulatory requirements, and other factors.

The Company did not repurchase any shares under the stock repurchase program during the three months ended May 31, 2016.

Off-Balance Sheet Arrangements:

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

Forward Looking Statements:

Some of the statements in this Quarterly Report on Form 10-Q are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended February 29, 2016, 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 4. CONTROLS AND PROCEDURES

Our Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e), and 15d-15(e) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of May 31, 2016 due to the material weakness described in the Company's Annual Report on Form 10-K for the year ended February 29, 2016 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 Quarterly Report fairly present, in all material respects, the Company's financial condition and results of operations as of and for the quarter ended May 31, 2016.

Changes in Internal Control over Financial Reporting.

Other than the changes referenced in the Company's Annual Report on Form 10-K for the year ended February 29, 2016 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 first quarter ended May 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II– OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of May 31, 2016, we had no known material current, pending, or threatened litigation.

ITEM 6. EXHIBITS

Exhibits

- 31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Label Linkbase

101.PRE* XBRL Taxonomy Presentation Linkbase

* Filed herewith

** Furnished herewith

SIGNATURES

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

SOLITRON DEVICES, INC.

Date: July 20, 2016

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

EXHIBIT INDEX

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
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*	Filed herewith
**	Furnished herewith

CERTIFICATION

I, Shevach Saraf, Chairman, President, Chief Executive Officer, Treasurer and Chief Financial Officer of Solitron Devices, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Solitron Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within this entity, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 20, 2016

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

Certification Required by 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report of Solitron Devices, Inc. (the “Company”) on Form 10-Q for the period ended May 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shevach Saraf, as Chairman, President, Chief Executive Officer, Treasurer and Chief Financial Officer of Solitron Devices, Inc., certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 20, 2016

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