



**UNAUDITED REPORT**  
**FOR THE FISCAL 2020 THIRD QUARTER**  
**ENDED NOVEMBER 30, 2019**

Solitron Devices, Inc.

A Delaware Corporation  
3301 Electronics Way  
West Palm Beach, Florida 33407

(561) 848-4311

[www.solitrondevices.com](http://www.solitrondevices.com)  
[corporate@solitrondevices.com](mailto:corporate@solitrondevices.com)

As of November 30, 2019, the number of shares outstanding of our Common Stock was: 2,062,949

## FORWARD-LOOKING STATEMENTS

Some of the statements in this Quarterly Report are “forward-looking statements”. 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 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:

- The 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 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.
- 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, including investment securities, 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.
- Changes in Defense related programs and priorities 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, including our ability to fulfill orders more rapidly and ship at higher than historic levels, which could adversely impact our business, financial condition and results of operations.
- Our ability to properly account for inventory in the future.
- If the termination clause in an agreement with one of our distributors is exercised requiring us to grant a full credit for the return of all inventory held by the distributor.
- Our ability to protect the Company's net operating losses and tax benefits.
- The timely and successful completion of our wafer fab improvement plan.
- The nature of our products exposes us to potentially significant product liability risk.
- We depend on the recruitment and retention of qualified personnel and our failure to attract and retain such personnel could seriously harm our business.
- Provisions in our charter documents and rights agreement could make it more difficult to acquire our Company and may reduce the market price of our stock.
- Natural disasters, like hurricanes, or occurrences of other natural disasters whether in the United States or internationally may affect the markets in which our common stock trades, the markets in which we operate and our profitability.
- Failure to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.
- We cannot guarantee 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 rates declared in the past 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 results are unaudited.
- Our ability to complete a successful audit of our fiscal 2019 and 2020 financial results upon the completion of the fiscal 2020 year.
- Recent changes in accounting rules could result in a material change to reported results.

**SOLITRON DEVICES, INC.**  
**CONDENSED BALANCE SHEETS**  
**AS OF NOVEMBER 30, 2019 AND FEBRUARY 28, 2019**  
(Unaudited, in thousands except for share and per share amounts)

	Nov. 30, 2019	Feb. 28, 2019
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	1,120	394
Securities	69	79
Accounts receivable (net of \$4,000 reserve as of Nov. 30, 2019)	1,816	1,829
Inventories, net	2,797	3,958
Prepaid expenses and other current assets	181	156
<b>TOTAL CURRENT ASSETS</b>	<b>5,983</b>	<b>6,416</b>
Property, Plant and Equipment, Net	437	517
Operating Lease - Right-of-Use Asset	815	1,081
Other Assets	46	47
<b>TOTAL ASSETS</b>	<b>7,281</b>	<b>8,061</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES		
Accounts payable	330	742
Customer deposits	38	5
Operating Lease Liability*	407	378
Accrued expenses and other current liabilities	462	442
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,237</b>	<b>1,567</b>
Operating Lease Liability*	486	794
<b>TOTAL LIABILITIES</b>	<b>1,723</b>	<b>2,361</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, 2,062,949 shares outstanding, net of 508,314 treasury shares at November 30, 2019; 1,901,959 shares outstanding, net of 669,304 treasury shares at February 28, 2019	21	19
Additional paid-in capital	1,834	1,834
Retained Earnings	5,184	5,608
Less treasury stock	( 1,481)	( 1,761)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>5,558</b>	<b>5,700</b>

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

**SOLITRON DEVICES, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**NINE MONTHS ENDED NOVEMBER 30, 2019 AND NOVEMBER 30, 2018**  
(Unaudited, in thousands except for share and per share amounts)

	Fiscal third quarter ended	Fiscal third quarter ended	Fiscal nine months ended	Fiscal nine months ended
	<u>11/30/2019</u>	<u>11/30/2018</u>	<u>11/30/2019</u>	<u>11/30/2018</u>
Net Sales	2,263	2,255	7,240	6,497
Cost of Sales	1,802	1,967	6,126	5,746
Gross Profit	461	288	1,114	751
<i>as a % of net sales</i>	<i>20.4%</i>	<i>12.8%</i>	<i>15.4%</i>	<i>11.6%</i>
Selling, General and Administrative Expenses	422	604	1,538	2,405
Operating Income (Loss)	39	( 316 )	( 424 )	( 1,654 )
Other income (loss)				
Interest Income	1	-	3	6
Realized gain (loss) on investments	( 2 )	( 3 )	( 25 )	( 10 )
Unrealized gain (loss) on investments	-	( 39 )	22	( 85 )
Other, net	-	-	-	4
Total other (loss) income	( 1 )	( 42 )	-	( 85 )
Net Income (Loss)	38	( 358 )	( 424 )	( 1,739 )
Net Loss Per Share-Basic and diluted	\$ 0.02	\$ (0.19)	\$ (0.21)	\$ (0.91)
Weighted average shares outstanding	2,062,952	1,901,979	1,992,702	1,901,953

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

**SOLITRON DEVICES, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED NOVEMBER 30, 2019**  
**(Unaudited, In thousands, except for number of shares)**

	<u>Common Stock</u>		<u>Additional</u>			
	<u>Number of</u>		<u>Paid-in</u>	<u>Retained</u>	<u>Treasury</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Earnings</u>	<u>Stock</u>	<u>Total</u>
Balance, February 28, 2019	<u>1,901,959</u>	<u>\$ 19</u>	<u>\$ 1,834</u>	<u>\$ 5,699</u>	<u>\$ (1,761 )</u>	<u>\$ 5,791</u>
Adjustment for Adoption of Accounting Standard				( 91 )		( 91 )
Stock based Compensation	161,000	2			280	282
Repurchase of Shares	( 10 )	-			-	-
Net Income				( 424 )		( 424 )
Balance, November 30, 2019	<u><u>2,062,949</u></u>	<u><u>\$ 21</u></u>	<u><u>\$ 1,834</u></u>	<u><u>\$ 5,184</u></u>	<u><u>\$ (1,481 )</u></u>	<u><u>\$ 5,558</u></u>

**SOLITRON DEVICES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**NINE MONTHS ENDED NOVEMBER 30, 2019 AND NOVEMBER 30, 2018**  
**(Unaudited, in thousands)**

	<u>2019</u>	<u>2018</u>
Net loss	\$ (424)	\$ (1,739)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	163	162
Net realized and unrealized losses (gains) on investments	3	95
Stock based compensation	282	-
Accounts receivable	13	52
Inventories	1,161	( 333 )
Prepaid expenses and other current assets	( 25 )	55
Other assets	1	98
Non cash lease expense	( 12 )	
Accounts payable	( 412 )	( 13 )
Customer deposits	33	( 30 )
Accrued expenses, other current and non current liabilities	20	( 138 )
<b>Net cash provided by (used in) operating activities</b>	<b>803</b>	<b>( 1,791 )</b>
Investing activities		
Proceeds from sale of securities	57	175
Purchases of Securities	( 51 )	( 150 )
Purchases of property and equipment	( 83 )	( 135 )
<b>Net cash provided by (used in) investing activities</b>	<b>( 77 )</b>	<b>( 110 )</b>
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>-</b>
Net increase (decrease) in cash and cash equivalents	726	( 1,901 )
Cash and cash equivalents - beginning of the year	394	2,215
Cash and cash equivalents - end of period	<u><u>\$ 1,120</u></u>	<u><u>\$ 314</u></u>

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

SOLITRON DEVICES, INC.  
NOTES TO FINANCIAL STATEMENTS

1. THE COMPANY AND OPERATIONS

Soliton Devices, Inc., a Delaware corporation (“Soliton,” the “Company,” “we,” “us,” or “our”), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Securities

Investment in Securities includes investments in common stocks and bonds. Investments in securities are reported at fair value with changes in unrecognized gains or losses included in other income on the income statement.

The following table summarizes available-for-sale investments:

30-Nov-19			
Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)			
Marketable Securities:			
Common Stocks	\$ 80	\$ -	\$ 69
Total Securities	\$ 80	\$ (11)	\$ 69
30-Nov-18			
Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)			
Marketable Securities:			
Common Stocks	\$ 321	\$ -	\$ 253
Total Securities	\$ 321	\$ (68)	\$ 253

At November 30, 2019 and November 30, 2018, the deferred tax liability related to unrecognized gains and losses on short-term investments was \$0.

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 securities are subject to level 1 fair value measurement.

The carrying amounts of the Company's short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other liabilities approximate their fair value due to the relatively short period to maturity for these instruments.

#### 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 amount. As of November 30, 2019 the reserve was \$4,000.

#### 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 (current and long-term) are stated at the lower of cost and net realizable value. 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 acquired or processed in the last two fiscal years is valued at the lower of its acquisition cost or net realizable value except for wafers which function under a three- year policy. All material not used after two fiscal years is fully reserved for except wafers which are reserved for after three years. Raw material in excess of five years' usage that cannot be restocked, and slow-moving work in process are reserved for.
Finished goods:	All finished goods with firm orders for later delivery are valued (material and overhead) at the lower of cost or net realizable value. 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 number of man-hours required from the different direct labor departments to bring each device to its particular level of completion. Manufacturing overhead costs are allocated to finished goods and work in process inventory as a ratio to direct labor costs.

#### Property, Plant, Equipment, and Leasehold Improvements

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 are amortized over the shorter of the lease term or the 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 account receivables. The Company places its cash with high credit quality institutions. At times, such amounts may be in excess of the Federal Deposit Insurance Corporation ("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 November 30, 2019, all non-interest bearing checking accounts were FDIC insured to a limit of \$250,000. Deposits in excess of FDIC insured limits were approximately \$582,000 at November 30, 2019. With respect to the account 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 the U.S. Securities and Exchange Commission ("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 has been met. The criteria are usually met at the time of product shipment. Shipping terms are generally FCA (Free Carrier) shipping point.

We recognize revenue on sales to distributors when the distributor takes control of the products ("sold-to" model). We have agreements with distributors that allow distributors a limited credit for unsaleable products, which we refer to as a "scrap allowance." Consistent with industry practice, we also have a "stock, ship and debit" program whereby we consider requests by distributors for credits on previously purchased products that remain in distributors' inventory, to enable the distributors to offer more competitive pricing. We have contractual arrangements whereby we provide distributors with protection against price reductions initiated by us after product is sold by us to the distributor and prior to resale by the distributor. In addition, we have a termination clause in one of our distributor agreements that would allow for a full credit for all inventory upon 60 days notice of terminating the agreement.

We recognize the estimated variable consideration to be received as revenue and record a related accrued expense for the consideration not expected to be received, based upon an estimate of product returns, scrap allowances, "stock, ship and debit" credits, and price protection credits that will be attributable to sales recorded through the end of the period. We make these estimates based upon sales levels to our customers during the period, inventory levels at the distributors, current and projected market conditions, and historical experience under the programs. Our estimates require the exercise of significant judgments. We believe that we have a reasonable basis to estimate future credits under the programs.

### 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.

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.

On December 22, 2017, President Trump signed into law the legislation generally known as the Tax Cut and Jobs Act of 2017. The tax law includes significant changes to the U.S. corporate tax systems including a rate reduction from 35% to 21% beginning in January of 2018, a change in the treatment of foreign earnings going forward and a deemed repatriation transition tax. In accordance with ASC 740, "Income Taxes", the impact of a change in tax law is recorded in the period of enactment. Refer to Note 7 for additional information on income taxes.

#### Net Loss 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. Since the company has no outstanding stock options, diluted earnings per common share is identical to basic earnings per common 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 or grants occurred during the quarter ended November 30, 2019 or November 30, 2018.

#### Recent Accounting Pronouncements

In July 2015, the FASB issued Accounting Standards Update 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11") which requires that inventory within the scope of this update, including inventory stated at average cost, be measured at the lower of cost and net realizable value. This update is effective for financial statements issued for fiscal years beginning after December 15, 2016. Early application of the ASU is permitted. The adoption of ASU 2015-11 did not impact the Company's financial position for the fiscal quarter ended November 30, 2019.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, and the International Accounting Standards Board ("IASB") issued IFRS 15, Revenue from Contracts with Customers.

Jointly issued by the FASB and the IASB, the revenue recognition standard will supersede virtually all existing revenue recognition guidance in US GAAP and IFRS. The intent of the new standard is to replace the existing guidance with a single industry-neutral revenue recognition model that will reduce complexity and increase financial statement comparability across companies and industries. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The adoption of ASU 2014-09 on January 1, 2018 did not have a material impact on the financial statements.

In February 2016, the FASB established Topic 842, *Leases*, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and expense recognition in the income statement. The

Company adopted ASU No. 2016-02 using the modified retrospective method. See Note 8 to the condensed consolidated financial statements for further details.

### 3. REVENUE RECOGNITION

As of November 30, 2019, and November 30, 2018, sales returns and allowances accrual activity is shown below:

	<u>November 30, 2019</u>	<u>November 30, 2018</u>
Beginning Balance	\$ 86,000	\$ 86,000
Accrued Allowances	33,000	12,000
Credits Issued	-	-
Ending Balance	<u>\$ 119,000</u>	<u>\$ 98,000</u>

As noted in Note 2 above, one of our distributor agreements has a termination clause that would allow for a full credit for all inventory upon 60 days notice of terminating the agreement. As of November 30, 2019, and February 28, 2019, the inventory balance at that distributor was \$1,265,000 and \$1,049,000, respectively. Based upon sales levels to and by the distributor during the period, inventory levels at the distributors, current and projected market conditions, and historical experience under the programs, we believe it is highly unlikely that the distributor would exercise termination. Should it occur, we believe the products could be sold to other distributors or held in inventory for future sale.

### 4. INVENTORIES

As of November 30, 2019, and February 28, 2019, inventories, net of reserves, consist of the following:

	<u>November 30, 2019</u>	<u>February 28, 2019</u>
Raw Materials	\$ 795,000	\$ 1,326,000
Work-In-Process	1,901,000	2,616,000
Finished Goods	101,000	16,000
Totals	<u>\$ 2,797,000</u>	<u>\$ 3,958,000</u>

### 5. PROPERTY, PLANT AND EQUIPMENT

As of November 30, 2019, and February 28, 2019, property, plant, and equipment consist of the following:

	<u>November 30, 2019</u>	<u>February 28, 2019</u>
Leasehold Improvements	\$ 349,000	\$ 287,000
Motor Vehicles	70,000	70,000
Computer Equipment	41,000	26,000
Machinery and Equipment	3,923,000	3,804,000
Subtotal	4,383,000	4,187,000
Less: Accumulated Depreciation and Amortization	(3,946,000)	(3,670,000)
Net Property, Plant and Equipment	<u>\$ 437,000</u>	<u>\$ 517,000</u>

Depreciation and amortization expense was \$56,000 and \$55,000 for the fiscal third quarters ended November 30, 2019 and November 30, 2018, respectively, and is included in cost of sales in the accompanying statements of operations.

## 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of November 30, 2019, and February 28, 2019, accrued expenses and other current liabilities consist of the following:

	<u>November 30, 2019</u>	<u>February 28, 2019</u>
Payroll and related employee benefits	\$ 341,000	\$ 339,000
Legal fees	3,000	5,000
Property taxes	-	8,000
Return Allowance	118,000	88,000
Other liabilities	-	2,000
Totals	<u>\$ 462,000</u>	<u>\$ 442,000</u>

## 7. INCOME TAXES

As of November 30, 2019, the Company estimates it had approximately \$11.6 million of Federal and \$10.9 million of state net operating loss (“NOL”) carryforwards. Of the Federal NOL carryforwards, \$0 expire in 2019 and the remaining balance will expire between 2021 and 2036. Of the state NOL carryforwards, \$0 will expire in 2019, and the remaining balance will expire between 2021 and 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.

## 8. LEASES

We adopted ASU No. 2016-02—Leases (Topic 842), as amended, as of March 1, 2019, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption and in comparative periods that approximates the results of a full retrospective approach. The Company elected to adopt the ‘package of practical expedients’, which permitted the Company not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs, the practical expedients pertaining to land easements, the use-of hindsight, the short-term lease recognition exemption for all leases that qualified, and the practical expedient to not separate lease and non-lease components for all leases other than leases of real estate.

Adoption of the new standard resulted in the recording of an additional net operating lease right-of-use asset and operating lease liability of approximately \$1.1 million and \$1.2 million respectively, as of March 1, 2019. The difference between the additional lease assets and lease liabilities was recorded as an adjustment to retained earnings. The standard did not materially impact our consolidated net earnings and had no impact on cash flows. The Company does not have any finance leases.

As our lease does not provide an implicit interest rate, we use an estimated incremental current borrowing rate in determining the present value of lease payments.

### Operating leases:

On October 1, 2014, 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 for calendar 2019 is \$39,031 per month, including sales tax. 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 annual lease payments for this non-cancelable operating lease as of November 30, 2019, are as follows:

<u>Fiscal Years Ending February 28/29</u>	<u>Amount</u>
2020	119,000
2021	485,000
2022	<u>414,000</u>
Total future undiscounted cash flows	\$ 1,018,000

Lease expense for the fiscal third quarters ended November 30, 2019 and November 30, 2018 was approximately \$118,000 and \$114,000, respectively.

## 9. STOCK OPTIONS

During the August 31, 2019 fiscal quarter, the Board adopted the 2019 Incentive Stock Plan and issued restricted stock grants totaling 161,000 shares. There are no stock options outstanding and no options have been granted during the quarter ended November 30, 2019.

## 10. 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 Profit Sharing Plan allows for matching and discretionary employer contributions. In addition, the Company may make additional contributions at its discretion. The Company did not contribute to the Profit Sharing Plan during the fiscal third quarters ended November 30, 2019 and November 30, 2018.

## 11. EXPORT SALES AND MAJOR CUSTOMERS

Revenues from domestic and export sales to unaffiliated customers for the fiscal quarters ended November 30, 2019 and November 30, 2018, respectively, are as follows:

<u>Geographic Region</u>	<u>November 30, 2019</u>	<u>November 30, 2018</u>
Europe and Australia	-	-
Canada and Latin America	-	-
Far East and Middle East	-	32,000
United States	<u>2,263,000</u>	<u>2,223,000</u>
Totals	<u>\$ 2,263,000</u>	<u>\$ 2,255,000</u>

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 our top two customers accounted for 67% of net sales for the fiscal quarter ended November 30, 2019 as compared with 71% of the Company's net sales for the fiscal quarter ended November 30, 2018. Sales to Raytheon Company accounted for approximately 47% of net sales for the fiscal quarter ended November 30, 2019 and 45% for the fiscal quarter ended November 30, 2018. Sales to the second largest customer, USI Electronics, accounted for 21% of net sales for the fiscal quarter ended November 30, 2019, and 26% of net sales for the fiscal quarter ended November 30, 2018.

## 12. STOCKHOLDERS' EQUITY

On May 29, 2015, the Board of Directors authorized a stock repurchase program under which the Company could have repurchased 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.

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

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

	(Dollars in Thousands)	
	<u>Quarters Ended November 30,</u>	
	<u>2019</u>	<u>2018</u>
Net Sales	\$ 2,263	\$ 2,255
Cost of sales	<u>1,802</u>	<u>1,967</u>
Gross profit	461	288
Selling, general and administrative expenses	<u>422</u>	<u>604</u>
Operating loss	39	(316)
Interest and dividend income	1	0
Realized Gain (Loss) on investments	(2)	(3)
Unrealized Gain (Loss) on investments	0	(39)
Other, net	<u>0</u>	<u>0</u>
Net Income (Loss)	<u>\$ 38</u>	<u>\$ (358)</u>

### RESULTS OF OPERATIONS

#### Fiscal 2020 third quarter vs. fiscal 2019 third quarter

Net sales for the fiscal third quarter ended November 30, 2019 increased by \$8,000 versus the fiscal third quarter ended November 30, 2018.

Net bookings for the fiscal third quarter ended November 30, 2019 were \$3,525,000 versus \$1,390,000 for the fiscal third quarter ended November 30, 2018. Backlog at the end of the fiscal third quarter ended November 30, 2019 was \$7,941,000 versus \$5,081,000 for the fiscal third quarter ended November 30, 2018.

During the fiscal third quarter ended November 30, 2019, we shipped 20,021 units as compared with 30,072 units shipped during the fiscal third quarter ended November 30, 2018. It should be noted that since we manufacture a wide variety of products with an average sales price ranging from less than one dollar to several hundred dollars, such periodic variations in our volume of units shipped might not be a reliable indicator of our performance.

Cost of sales for the fiscal third quarter ended November 30, 2019 decreased to \$1,802,000 from \$1,967,000 for the fiscal third quarter ended November 30, 2018. Expressed as a percentage of sales, cost of sales was 80% for the fiscal third quarter ended November 30, 2019 and 87% for the fiscal third quarter ended November 30, 2018. The decrease in cost of sales was primarily due to a decrease in inventory reserves for excess and obsolescence. In the fiscal third quarter ended November 30, 2019 the amount for inventory excess and obsolescence was \$16,000 as compared to \$193,000 in the fiscal third quarter ended November 30, 2018.

Gross profit for the fiscal third quarter ended November 30, 2019 increased to \$461,000 from \$288,000 for the fiscal third quarter ended November 30, 2018 due primarily to decreased costs. Expressed as a percentage of sales, gross profit was 20% for the fiscal third quarter ended November 30, 2019 and 13% for the fiscal third quarter ended November 30, 2018.

During the fiscal third quarter ended November 30, 2019, selling, general and administrative expenses, as a percentage of sales, decreased to approximately 19% as compared to 27% for the fiscal third quarter ended November 30, 2018. In terms of dollars, selling, general and administrative expenses decreased by \$182,000 to \$422,000 for the fiscal third quarter ended November 30, 2019 from \$604,000 for the fiscal third quarter ended November 30, 2018. The decrease was primarily due to a reduction of \$163,000 of professional and legal fees related to the fiscal 2017 audit and investigation in the fiscal third quarter ended November 30, 2018 as compared to zero in the fiscal third quarter ended November 30, 2019. The reserve for accounts receivable was increased by \$4,000 in the fiscal 2020 third quarter.

Operating income for the fiscal third quarter ended November 30, 2019 was \$39,000 as compared to an operating loss of \$316,000 for the fiscal third quarter ended November 30, 2018. This decrease in operating loss was mainly attributable to the decrease in cost of sales and decrease in selling, general and administrative expenses.

Total other income, which includes, interest and dividend income, realized and unrealized gains or losses on investments, and other income, for the fiscal third quarter ended November 30, 2019 was a loss of \$1,000 as compared to a loss of \$42,000 during the fiscal third quarter ended November 30, 2018.

Net income for the fiscal third quarter ended November 30, 2019 was \$38,000 as compared to net loss of \$358,000 for the fiscal third quarter ended November 30, 2018.

As noted in our earnings press release, our estimate for fiscal 2020 bookings is \$10.0 million to \$11.0 million. The potential end of life order we were expecting is no longer expected to occur. As a reminder, timing is uncertain with regard to the receipt of government/defense related contracts.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities:

Net cash provided by operating activities was \$803,000 for the first nine months of fiscal 2020 ended November 30, 2019 primarily reflecting a net loss of \$424,000 and a reduction in accounts payable of \$412,000 offset by a decrease in inventory of \$1,161,000, stock based compensation of \$282,000 and depreciation of \$163,000.

Net cash used in operating activities was \$1,791,000 for the first nine months of fiscal 2019 ended November 30, 2018 primarily reflecting a net loss of \$1,739,000, an increase in inventory of \$333,000, offset by depreciation of \$162,000.

### Investing Activities:

Net cash used in investing activities was \$77,000 for the first nine months of fiscal 2020 ended November 30, 2019 principally reflecting \$57,000 in proceeds from sale of securities, offset by \$51,000 in purchases of securities, and \$83,000 in purchases of property and equipment.



Net cash used in investing activities was \$110,000 for the first nine months of fiscal 2019 ended November 30, 2018 principally reflecting \$175,000 in proceeds from sale of securities, offset by \$150,000 in purchases of securities and \$135,000 in purchases of property, plant and equipment.

Financing Activities:

There was no net cash used in or provided by financing activities during the first nine months of fiscal 2020 and fiscal 2019, ended November 30, 2019 and November 30, 2018, respectively.

We expect our sole source of liquidity over the next twelve months to be cash from operations and cash and cash equivalents, if necessary. We anticipate that our capital expenditures required to sustain operations will be approximately \$300,000 during the next twelve months and will be funded from operations and cash and cash equivalents, if necessary.

At November 30, 2019, February 28, 2019, and November 30, 2018, we had cash and cash equivalents of approximately \$1,120,000, \$394,000, and \$379,000, respectively. The increase for the nine months ended November 30, 2019 was largely due to decreases in inventory and accounts receivables and stock based compensation.

At November 30, 2019, February 28, 2019, and November 30, 2018, we had investments in securities of approximately \$69,000, \$79,000, and \$322,000, respectively.

At November 30, 2019, February 28, 2019, and November 30, 2018, we had working capital of \$4,746,000, \$4,849,000, and \$4,990,000, respectively. The decrease for the nine months ended November 30, 2019 was due primarily to loss from operations.

SEASONALITY

Our bookings of new orders and sales are largely dependent on congressional budgeting and appropriation activities and the cycles associated therewith. We have 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.

## 14. SUBSEQUENT EVENTS

None.