

SOLITRON DEVICES, INC.

ANNUAL MEETING OF STOCKHOLDERS

June 18, 2013
Tuesday

Scheduled for 9:00 a.m.

Commencing at 9:01 a.m. - 10:26 a.m.

Akerman Senterfit
One S.E. Third Avenue
Suite 2500
Miami, Florida 33131

BOARD OF DIRECTORS:

SHEVACH SARAF

JACOB A. DAVIS

JOSEPH F. GERRITY

SIDNEY H. KOPPERL

JOSEPH SCHLIG

DIRECTOR OF FINANCE: ARTHUR LAPLANTE

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1 APPEARANCES:

2

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INSPECTOR OF ELECTIONS:

4

MORROW & CO., LLC

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KEVIN P. KELLY

6

7 AKERMAN SENTERFITT:

8

CHRISTINA C. RUSSO, ESQ.

TEDDY D. KLINGHOFFER, ESQ.

9

ESTHER MORENO, ESQ.

10

11 GOLDSTEIN SCHECHTER KOCH, P.A.:

12

STEVEN HOLTZ, CPA

JEFFREY KRAMER, CPA

13

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JANE FOGEL, Solitron Devices, Inc.

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20 ALSO PRESENT:

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GLENDIA M. POWERS, RPR, CRR, FPR

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1 order set forth in the agenda. Each proposal
2 set forth on the agenda will be presented.
3 Questions and answers may be raised during the
4 question and answer session and should be
5 limited to one minute. Stockholders are limited
6 to no more than two questions or comments each.

7 Only stockholder or holders of the proxies
8 eligible to vote at the meeting may present
9 questions and comments at the meeting.

10 Stockholders should not address the meeting
11 until recognized by the Chair.

12 Pursuant to the rules of conduct, during the
13 question and answer session, if any stockholder
14 or holder of the proxy have question or comment,
15 please stand and wait to be recognized by the
16 Chair.

17 Once recognized, please state your name,
18 address, number of shares you hold and, if
19 applicable, the name of the stockholder you
20 represent and the number of shares held by the
21 stockholder you represent.

22 Next, I would like to introduce you to
23 Arthur LaPlante, the company's director of
24 finance.

25 Arthur, would you please address some of the

1 other formalities relating to the meeting.

2 FINANCE DIRECTOR LAPLANTE: A complete list,
3 arranged in alphabetical order, of stockholders
4 of the company's common stock entitled to notice
5 of and to vote at this annual meeting is
6 available for inspection upon request.

7 As of May 6th, 2013, the record date for
8 this meeting, there were 2,177,832 shares of
9 common stock outstanding and entitled to vote at
10 this annual meeting.

11 Kevin Kelly of Morrow & Company -- Kevin
12 Kelly's just coming in the room now, good
13 morning, Kevin -- has been appointed the
14 inspector of elections for this meeting and has
15 been duly sworn.

16 I will include the oath of the inspector of
17 elections and the report of the inspector of
18 elections when completed regarding the quorum
19 and voting in the minutes of this meeting.

20 Any ballots voted and tendered today shall
21 be tendered directly to the inspector of
22 elections.

23 I now present to the meeting an affidavit of
24 Silvia Cauci, of Continental Stock Transfer &
25 Trust, the company's transfer agent, as to the

1 mailing on May 17th, 2013, and an affidavit of
2 Joanne Vogel, of Broadridge Financial Solutions,
3 as to the mailing on May 20th, 2013, of the
4 notice of the meeting and of the proxy
5 materials.

6 If you have already voted by proxy, there is
7 no need to submit another proxy. If you have
8 not yet voted and wish to do so, or if you have
9 voted and wish to change your vote, at the
10 appropriate time, please raise your hand and you
11 will be provided with a ballot for you to
12 complete, which you will then deliver to the
13 inspector of elections.

14 For purposes of conducting all of the
15 business of this meeting a quorum is being
16 deemed to exist, subject to verification by the
17 final report of the inspector of elections with
18 respect to quorum.

19 That completes the administrative
20 formalities. I turn the program back to you,
21 Shevach.

22 CHAIRMAN SARAF: Thank you, Arthur.

23 At this point, I would like to introduce to
24 you the directors of the company who are present
25 here today.

1 To my left is Mr. Joseph Schlig; to my right
2 is Mr. Sidney Kopperl; to his right is Mr.
3 Joseph Gerrity; and to his right is Dr. Jacob
4 Davis.

5 Also present is Steven Holtz and Jeffrey
6 Kramer of Goldstein Schecter Koch, P.A., the
7 company's independent certified public
8 accountants, who will be available to answer
9 appropriate questions you may have later in the
10 program.

11 Now we need to proceed with the formal items
12 of business before the meeting. We will address
13 any question you may have regarding the business
14 of the company later in the program.

15 I declare the polls -- I now declare the
16 polls open. The polls will remain open until
17 all items of business have been presented and
18 discussed. Will those stockholders who would
19 like ballots please raise your hand and you will
20 be provided with a ballot. Anybody?

21 You may vote your ballot during the
22 presentation of the various items of the
23 business and while the polls are open. When you
24 have completed your ballot, please raise your
25 hand again and the inspector of elections will

1 collect your ballot from you.

2 As described in the notice of the meeting
3 and the proxy materials provided to you by
4 management of the company, the purpose of the
5 meeting is:

6 One: To elect five directors.

7 Two: The ratification of the selection of
8 Goldstein Schechter Koch, P.A. as the company's
9 independent certified public accountants for the
10 fiscal year ending February 28, 2014.

11 Three: A non-binding advisory vote on the
12 compensation of the named executive of the
13 company, also referred to as "Say on Pay."

14 Four: A non-binding advisory vote on the
15 frequency of the advisory vote on Say on Pay in
16 future years.

17 The first business of order is the election
18 of five directors. Arthur?

19 FINANCE DIRECTOR LAPLANTE: The board has
20 approved and recommends the nomination of
21 Shevach Saraf, Jacob A. Davis, Joseph F.
22 Gerrity, Sidney H. Kopperl, and Joseph Schlig,
23 as members of the board of directors.

24 The company believes that its board of
25 directors is strongly independent, with four of

1 its five directors being independent. We
2 believe that the company's stockholders are best
3 served by the existing board members who are
4 experienced and knowledgeable.

5 CHAIRMAN SARAF: The second order of
6 business before the meeting is the consideration
7 of a proposal to rectify the selection of
8 Goldstein Schechter Koch P.A. as the company's
9 independent registered public accountants for
10 the fiscal year ending February 28th, 2014.

11 FINANCE DIRECTOR LAPLANTE: The board has
12 approved and recommends the selection of
13 Goldstein Schechter Koch, P.A. as the company's
14 independent certified public accountants for the
15 fiscal year ending February 28th, 2014.

16 Gold Schechter Koch, P.A. has been the
17 company's independent certified public
18 accountants since January 2013 and is familiar
19 with the company's business and financial
20 affairs, as the firm performed the audit of the
21 company's financial statements for the year
22 ended February 28th, 2013.

23 The company's audit committee has been
24 satisfied with the firm's representation and we
25 believe that we have a good working relationship

1 with the firm.

2 CHAIRMAN SARAF: The third order of business
3 is a non-binding advisory vote on the
4 compensation of the named executive officer of
5 the company, also referred to as "Say on Pay"

6 FINANCE DIRECTOR LAPLANTE: The board
7 recommends the approval of the non-binding
8 advisory vote on Say on Pay.

9 CHAIRMAN SARAF: The last order of business
10 is a non-binding advisory vote on the frequency
11 of the advisory vote on Say on Pay in future
12 years.

13 Stockholders have the choice to cast their
14 vote on the frequency of the Say on Pay proposal
15 for every year, every two years, or every three
16 years.

17 FINANCE DIRECTOR LAPLANTE: The board
18 recommends the approval of every three years for
19 the non-binding vote on the frequency of the
20 advisory vote on Say on Pay.

21 CHAIRMAN SARAF: We will now commence the
22 question and answer session of the meeting,
23 which we anticipate will last, approximately, 20
24 minutes.

25 Pursuant to the rules of conduct during the

1 question and answer session, if any stockholder
2 or holder of their proxies have questions or
3 comments, please stand and wait to be recognized
4 by the Chair.

5 Once recognized, please state your name,
6 address, number of shares you hold and, if
7 applicable, the name of any stockholder you
8 represent and the number of shares held by the
9 stockholder you represent.

10 Are there any questions?

11 MR. TOPPAN: Yes.

12 CHAIRMAN SARAF: Go ahead.

13 MR. TOPPAN: How are you, sir?

14 CHAIRMAN SARAF: Fine.

15 MR. TOPPAN: It's actually nice to put a
16 face to the name. I'm Alex Toppan. I'm a
17 shareholder of a little more than five percent
18 of the company. I'm from Connecticut. Like I
19 said, it's nice to meet you --

20 CHAIRMAN SARAF: Same here.

21 MR. TOPPAN: -- having not seen you over the
22 years. My main concern and, I guess, it is a
23 question, is that you, sir, are such a key
24 person to this company, as chairman, CEO, CFO,
25 and pretty much, it appears, almost everything

1 else, I'm actually surprised at the team you
2 have around you right now.

3 Is there -- what happens if you get hit by a
4 bus, or if, God forbid, you die, what is the --
5 is there a plan for this company where someone
6 could step into your shoes or not?

7 CHAIRMAN SARAF: Yes. In the company, we
8 have a layer of people under, reporting to me:
9 Arthur LaPlante, the director of finance; Mr.
10 Jesse Quinn, the director of operation; and Mr.
11 Mike Radovich, who is the Q.C. manager, who can
12 step in.

13 Mr. Jesse Quinn has been in the
14 semiconductor business for many, many years and
15 started and ran quite a few semiconductor
16 operations, including overseas.

17 MR. TOPPAN: And so you work, obviously,
18 very closely with Jesse Quinn and Mike --

19 CHAIRMAN SARAF: That's correct.

20 MR. TOPPAN: And you really -- okay. I --
21 that's my biggest concern, frankly. May you
22 live a long and healthy life, but I -- that's my
23 biggest question/concern.

24 I have another question.

25 CHAIRMAN SARAF: Sure.

1 MR. TOPPAN: I had a lot, but I'm limited to
2 two, so...

3 Your property -- and this might be a
4 question for Arthur, I don't know. But your
5 property, plant and equipment is listed around
6 three million dollars. It's 80 percent
7 depreciated, and you've mentioned in the "K"
8 that you might be investing in new equipment
9 down the road.

10 Is there a certain portion of the company's
11 manufacturing equipment that has been fully
12 depreciated but still has a much longer life?

13 CHAIRMAN SARAF: Most of the equipment that
14 we have, despite the fact that it's fully
15 appreciated -- depreciated -- excuse me -- has
16 quite a few more useful life in it. On a
17 continuous basis, we upgrade new equipment on an
18 ongoing basis.

19 MR. TOPPAN: Okay. Those are my two
20 questions, I guess. Thank you.

21 CHAIRMAN SARAF: Any other questions?

22 MR. MATIENZO: Hello. My name is Juan
23 Matienzo. I'm from Mexico. I own 56,005,
24 something like two-and-a-half percent of the
25 company.

1 And I'd like to ask you, sir, what do you
2 intend to do with all the cash that's been
3 accumulated? So you have a lot more cash and
4 cash equivalence than you could possibly ever
5 use, unless you're planning an acquisition or
6 something. So, I want to know, what are you
7 going to do with all the cash?

8 CHAIRMAN SARAF: Use of the cash is
9 completely and at sole discretion of the board
10 of directors. The board of directors need to
11 consider -- let's call it economy, the need to
12 upgrade equipment that the company has which is
13 old and must keep some money in reserve, and
14 last, but not least, to be able to acquire
15 another business.

16 MR. MATIENZO: So, all of the money that you
17 have now, you intend to use for those purposes,
18 nothing -- you're not thinking of distributing
19 the money at all to shareholders, ever? Or like
20 how do you -- of all the money there is, it
21 would seem that there's a lot more than you need
22 for the purposes you just described.

23 Do you intend to ever return the money to
24 shareholders, either by dividends or buy-back
25 shares, in -- not like you did last time, but

1 like in magnitude?

2 CHAIRMAN SARAF: To start with, until now,
3 and including for the next 32 days, by the terms
4 of the ability to pay agreement with the EPA, we
5 cannot even consider paying dividend to
6 shareholders.

7 MR. MATIENZO: Right.

8 CHAIRMAN SARAF: When this time frame will
9 expire, the board will decide whether or not to
10 issue dividend to shareholders.

11 MR. MATIENZO: Can we get an inkling on
12 that?

13 CHAIRMAN SARAF: I'm not going to break the
14 law.

15 MR. MATIENZO: All right.

16 CHAIRMAN SARAF: Any other questions?

17 MR. TOBIK: My name is Nate Tobik. I own
18 1500-something shares. So, my question is
19 related to -- you had mentioned that you'd
20 potentially consider using some of the cash for
21 an acquisition.

22 And so, looking at your business over the
23 last ten years, the company hasn't really grown.
24 It's spun off some excess cash. And so, I'm
25 wondering, if you haven't been able to grow

1 organically, why should shareholders have
2 confidence that you would be able to grow
3 through an acquisition?

4 And secondly, if you were to consider
5 spending cash on acquisition, what would your
6 criteria be for evaluating a company?

7 Do you use -- do you look at like return on
8 invested capital, some sort of other metric or
9 measure?

10 CHAIRMAN SARAF: To start with, let me
11 comment on your first point. While on the
12 surface it seems to you that we have not grown
13 the business, as a matter of fact, we are in
14 sunset technology area and a lot of large
15 companies have gone out of that marketplace.

16 And the fact that we were able to maintain
17 the level of business is because we capture
18 business that those companies left out.

19 MR. TOBIK: Okay. I mean, so, I guess the
20 question is, if the main business is, the market
21 is in decline, I guess, what's the path forward?

22 CHAIRMAN SARAF: Let me put it this way.
23 Interestingly enough, I'm sure that everybody
24 present heard the name "sequestration." As a
25 result of sequestration and -- let's call it --

1 the global economic situation, the government is
2 not going to spend money on new program
3 development, which means that more and more
4 money will need to be spent on either
5 maintaining existing old weapon system or
6 upgrading them, which opens for us opportunities
7 as a company, and that will be also an arena
8 where we -- it will make sense for us to look
9 into.

10 MR. TOBIK: Okay. And then, so that second
11 part of the question, a target for an
12 acquisition, how would you evaluate that?

13 CHAIRMAN SARAF: The potential that the
14 business will bring a return on investments.

15 MR. TOBIK: And then --

16 CHAIRMAN SARAF: I thought we said two
17 questions.

18 MR. TOBIK: -- I guess --

19 CHAIRMAN SARAF: Excuse me.
20 Would you give an opportunity for somebody
21 else, please?

22 MR. TOBIK: Yes.

23 MR. REIF: My name's Doug Reif. I hold
24 about 25,000 shares.

25 CHAIRMAN SARAF: Yes. We did speak.

1 MR. REIF: Yes, we did. I guess the first
2 question is sort of related to the acquisitions,
3 and also to your current plant.

4 My first question is: How much room to
5 grow -- where you physically sit right now -- do
6 you have, how much excess?

7 CHAIRMAN SARAF: We're operating at about 50
8 percent of capacity.

9 MR. REIF: So you could, essentially, double
10 your business and remain in the same --

11 CHAIRMAN SARAF: That's correct. And in
12 addition to that, there is more open space in
13 the building that we can lease. It would be
14 open for expansion.

15 MR. REIF: And if you were to consider an
16 acquisition, would it be business that you'd
17 move to your current facility or manage
18 remotely? I have concerns about your ability to
19 manage a facility in some other location.

20 CHAIRMAN SARAF: You know something, while
21 personal preference would be to have it under my
22 thumb, figure of speech, depends on the
23 circumstances. Sometimes that will not be
24 feasible, you know, because you need to take
25 into account the set -- the skill set of the

1 people running the company. You cannot just
2 relocate it from one city to another, like you
3 would relocate a law firm or accounting firm.

4 MR. REIF: I understand.

5 CHAIRMAN SARAF: So I cannot -- it's too
6 hypothetical to be able to answer.

7 MR. REIF: Yes, I have experience with
8 remote management. It's doesn't work. It's
9 very, very challenging.

10 CHAIRMAN SARAF: You know something,
11 personal note, I was running a company called
12 Vishay Intertechnology, a manufacturing
13 operation in Israel, and eventually the chairman
14 at the time decided that he wants everything
15 under his thumb. So he moved us, all of us, to
16 the U.S.; so you're right.

17 Any other questions?

18 MR. REIF: That's my question.

19 MR. MOORE: Jeff Moore. I'm from Kentucky.
20 I represent about 8,000 shares. I was curious
21 if you could give any or shed any light on
22 conflicts that are going on or may be getting to
23 go on in the Middle East, such as Syria, how
24 would conflicts like that have a potential to
25 affect the revenues and earnings of Solitron?

1 CHAIRMAN SARAF: Unfortunately, in our
2 business, there's nothing for our growth like a
3 high-tech war somewhere around the world.

4 MR. MOORE: Okay. And as far as, are you
5 willing to shed any light on the buy-back that
6 took place several months ago? There was about
7 five percent of the company's common stock was
8 re-purchased in a highly-negotiated transaction,
9 if I remember the language right.

10 Can you shed any light on the specifics of
11 that transaction, how that transpired? And
12 also, what future buy-back transactions may
13 occur or what you would look for in those?

14 CHAIRMAN SARAF: Unfortunately, because of
15 confidentiality agreement of the transaction, I
16 cannot shed light on it. And the only comment I
17 will make, if the opportunity would present
18 itself, I would bring it up to the board and let
19 the board decide.

20 MR. MOORE: Okay. Thanks.

21 CHAIRMAN SARAF: Any other questions?

22 MR. CLARKE: Jeffrey Clark. I represent
23 11,240 shares. I just wanted to confirm. After
24 32 days, all of the EPA issues are then off the
25 table; and are there any more lingering issues

1 off of the bankruptcy or environmental concerns,
2 you know, pending action, that you're aware of?

3 CHAIRMAN SARAF: If you read our 10-K --

4 MR. CLARKE: Yes.

5 CHAIRMAN SARAF: -- there is some lingering
6 potential issue with -- in as much as
7 environmental -- with the State of New York.
8 While it's involved, because of bankruptcy
9 proceeding, the user group or the cleanup group
10 may file a lawsuit against us, but they have not
11 done anything of the sort so far.

12 And eventually, in a year or two, I don't
13 remember the exact date, it will be barred by
14 the statute of limitation.

15 MR. CLARKE: My second question is: In the
16 interest of further disclosure, if we could
17 waive the two-question rule? Because I think
18 there's a lot more questions here, and this is
19 our first time meeting you in a number of years.

20 CHAIRMAN SARAF: What is your second
21 question?

22 MR. CLARKE: Can we waive the two-question
23 rule? I think a lot of the shareholders have
24 further questions.

25 CHAIRMAN SARAF: I think we will call it

1 off, if you don't mind.

2 MR. CLARKE: Call it off?

3 CHAIRMAN SARAF: No. We'll remain. We'll
4 stick with the two-question rule.

5 MR. CLARKE: And, I mean, you feel like
6 that's the most appropriate use of time?

7 CHAIRMAN SARAF: Let me put it to you this
8 way. We might be able to discuss it on the side
9 meeting later.

10 MR. CLARKE: Okay.

11 CHAIRMAN SARAF: Anything else? Yes, Jeff.

12 MR. ANDERSON: Jeff Anderson, at Core
13 Advisors, holders of about five percent of the
14 stock. We've had a few conversations, maybe the
15 last one was, well, heated wouldn't be the word,
16 but animated might be.

17 I guess more of a comment than a question,
18 first off, that we finally have an annual
19 meeting. We've got a bunch of people that
20 showed up. We've got people -- this is my first
21 annual meeting where we have people that have
22 insignificant positions; and that's not to say
23 anything about their holdings, but the fact that
24 they're here with insignificant holdings says
25 something.

1 And I think the comments have been, you've
2 done a great job running the business, so
3 liabilities have been satisfied, at discounts to
4 what were already discounted from fair value,
5 that's been great. You've been able to build
6 cash. You've cut costs wherever you can. These
7 have been good things.

8 My question is more of a question/concern
9 is, operationally, I think you get a B-plus,
10 A-minus; corporate governance, I think we get a
11 D. And I think that we need to, you know, I
12 think we need to change things.

13 We filed a 13-D, I don't know how many
14 months ago, we put it out there. And,
15 surprisingly, we got a call from the SEC a day
16 later asking us why we didn't file a proxy
17 instead of a 13-D. I didn't think that there
18 was anything to it. We just put in some
19 suggestions of what we thought you should do.

20 We didn't really -- we had a conversation,
21 and all the conversations were, Jeff, well, we
22 really can't talk now because I'm in a blackout
23 period. Okay. We'll wait for the "K" to come
24 out. The "K" will be out. We'll get an audited
25 "K" out in May, so we get a proxy out so we can

1 have a meeting in June. You did all that.

2 That's great.

3 But here we are, we've got a nice, fancy
4 place, got a meeting, and nothing's really being
5 done. We're asking you about capital allocation
6 strategies. You're giving generic answers. You
7 know, I think you can sense my frustration.

8 What's going to be different between now and
9 a year from now? Will we see anymore -- will we
10 see more communication?

11 Will we have any more open dialogue at the
12 next annual meeting now that we've opened it up
13 to five directors?

14 Is there going to be -- are we going to move
15 up the corporate governance scale?

16 Are we going to keep our auditors for more
17 than six months at a time?

18 Are we going to listen to the shareholders?

19 You've done a great job, but you've been
20 hiding under a rock for awhile. A few people
21 found you. People built up positions.

22 I think you need to kind of listen to the
23 shareholders; our suggestion about making a cash
24 distribution, it was not the be all and end all.
25 It didn't have to happen. It was merely a

1 suggestion.

2 If you have better use of the cash, that's
3 fine. I just feel that we do not have much say
4 in the company. We don't have much -- it's
5 still opaque. Other than having an annual
6 meeting today, nothing's really different. We
7 just kind of skated through. You finally had a
8 meeting. People finally showed up.

9 We can all say that Solitron is a legitimate
10 company, but we're no further ahead than we were
11 a year ago. And as a holder, what can you shed
12 light on between now and a year from now, with
13 all the liabilities behind us and people
14 watching, what's this business going to look
15 like in a year from now? That's question one.

16 Question two: Are we going to keep auditors
17 for more than six months?

18 CHAIRMAN SARAF: Okay. Why don't we start
19 with the second question first. I will let Joe
20 Schlig, the chairman of the audit committee,
21 address the issue, why have we changed auditors?

22 DIRECTOR SCHLIG: From someone looking at it
23 from the outside, it's an excellent question,
24 one where I, sitting on the outside, I, too,
25 would raise. Two or three reasons, when we made

1 changes; under, I think it's the SEC
2 regulations, the managing partner in charge of
3 an auditor count must be changed, I think, every
4 two years, is it?

5 MR. HOLTZ: Five.

6 DIRECTOR SCHLIG: Five. We were with one
7 auditor for five years. It was only one
8 partner. We couldn't stay with that auditor and
9 meet SEC requirements.

10 The most recent change was brought about
11 because our audit firm merged with another audit
12 firm whose profile and skill sets did not meet
13 those that we felt were needed for a
14 manufacturing entity, ergo, our new selection,
15 where we are extremely satisfied with their
16 work. These were basically the reasons for
17 change.

18 In no instant was a change brought about
19 because of a dispute between the audit firm and
20 the company. Have I addressed your question?

21 MR. ANDERSON: I guess I can't follow-up
22 with a question, with respect to that?

23 DIRECTOR SCHLIG: I'm just saying, I hope
24 I've addressed it.

25 UNIDENTIFIED SPEAKER: Yeah, he asked

1 whether he can ask you a question about it,
2 about your response. Go ahead.

3 MR. ANDERSON: Why don't I do it anyway?
4 I'm going to it anyway; whether you want to
5 answer it.

6 Do we have enough partners over there that
7 we can keep this going for awhile?

8 DIRECTOR SCHLIG: The answer is yes; that's
9 an unconditional yes.

10 CHAIRMAN SARAF: By the way, let me add one
11 more thing, the point that Mr. Schlig brought up
12 about the former auditors. They were acquired
13 by a company that specializes in the insurance
14 industry. There is no way auditors that have
15 cut their teeth in the insurance industry for
16 many years can address manufacturing company.
17 There's no way.

18 And as to answer your key question, we'll
19 try to be open and transparent to the degree we
20 can. How the business will look a year from
21 now, I cannot answer you, because the
22 sequestration is a major cloud on the U.S.
23 economy -- not only on Solitron -- I can tell
24 you that much; that major companies, like
25 Raytheon, Lockheed Martin, Northrop Grumman, are

1 waiting with awe what the government will do
2 with the budgetary decision. And in
3 geo-economics and in geo-political situations
4 around the globe, who knows what will happen.

5 CHAIRMAN SARAF: Any other questions? I'm
6 sorry.

7 MR. CONANT: I'm Taylor Conant. I'm from
8 California. I have 4,000 shares. I wanted to
9 ask you about the composition of the board of
10 directors.

11 I believe some shareholders had concerns
12 about the independence of the board and the
13 board's ability to respond to shareholders'
14 concerns, and you responded by expanding the
15 board by two members.

16 But I was wondering if you could explain how
17 the additional members will improve corporate
18 governance and allow shareholders to have a
19 louder voice at the company.

20 CHAIRMAN SARAF: Okay. The additional
21 shareholder and board members were selected
22 basically based on their skill set and industry
23 experience. That was the criteria for their
24 selection.

25 All shareholders are welcome to contact any

1 and all board members and raise questions, and
2 the board member will respond.

3 MR. CONANT: Is this a new policy going
4 forward? Because in the past it seemed that the
5 policy was that shareholders were to communicate
6 directly to the chairman.

7 CHAIRMAN SARAF: Let me put it to you this
8 way. Every question addressed to me, I address
9 verbally or via e-mail. True, I prefer to use
10 e-mail for the simple reason that some of my
11 answers, verbal answers, were totally
12 misrepresented, like day and night.

13 MR. GERHART: I have one question.

14 CHAIRMAN SARAF: Go ahead.

15 MR. GERHART: My name's David Gerhart from
16 (inaudible). I'm a private advisor with Morgan
17 Stanley. I have 500 personal shares and
18 represent a couple thousand more with my
19 clients.

20 I just got a question about your largest
21 client. Last I saw, he had 44 percent of sales.
22 I just wanted to know, how is this broken out?
23 How many different products or programs? What
24 is the risk to losing, you know, Raytheon losing
25 one or two different programs in the sequester?

1 CHAIRMAN SARAF: Okay. I think I can answer
2 this easily. Raytheon has multiple locations;
3 like they have a location in Massachusetts; they
4 have it in Florida; they have it in Texas;
5 California, they have multiple locations;
6 Arizona; and they have share agreements with
7 companies like BAE, in Australia, and all of
8 them have more than one programs.

9 And I believe I mentioned it earlier,
10 because of the reality that the government does
11 not spend money on developing new weapon
12 systems, we will get more and more on existing
13 programs that will be maintained and/or
14 upgraded.

15 MR. GERHART: Okay.

16 CHAIRMAN SARAF: Okay. So I think we close
17 the question and answers.

18 At this time, I would like to ask if there
19 are any ballots which have not been delivered?

20 MR. REIF: I haven't delivered mine yet.

21 CHAIRMAN SARAF: Okay. So why don't you
22 give it to Kevin.

23 MR. KELLY: Any other ballots?

24 CHAIRMAN SARAF: Kevin, there's one more
25 person. Kevin, you need more time to complete

1 the tabulation?

2 MS. RUSSO: Just a couple seconds.

3 CHAIRMAN SARAF: Okay. Now the tabulation
4 is complete. Arthur, will you please read the
5 final report and certification and announce the
6 results of the voting on the matters presented
7 to the meeting?

8 FINANCE DIRECTOR LAPLANTE: Shevach, the
9 preliminary inspector of elections report shows
10 that holders of 1,917,570 shares of the
11 company's common stock were represented in
12 person or by proxy, constituting a quorum.

13 The preliminary report further shows that
14 the holders of the common stock of Solitron
15 Devices, Inc. have voted to elect the following
16 persons as directors of the company:

17 Shevach Saraf, Joseph F. Gerrity and Sidney
18 H. Kopperl.

19 Two: They have voted to ratify the
20 selection of Goldstein Schecter Koch, P.A., as
21 the company's independent registered public
22 accountants for the fiscal year ending February
23 28th, 2014.

24 Three: For the non-binding advisory vote on
25 the compensation of the named executive officer

1 of the company.

2 And number four: For every year for the
3 non-binding vote on the frequency of the
4 advisory vote on Say on Pay.

5 CHAIRMAN SARAF: Thank you, Arthur. If
6 there are no other items of business to come
7 before the meeting, we now wish to adjourn the
8 meeting.

9 Ladies and gentlemen, thank you for coming.
10 The meeting is now adjourned. Thank you.

11 MR. MOORE: Can we stick around for like an
12 informal Q & A?

13 MR. UNIDENTIFIED SPEAKER: Do you plan on
14 nominating two new directors?

15 CHAIRMAN SARAF: The board will get together
16 and make a decision on it.

17 UNIDENTIFIED SPEAKER: Well, the board
18 members are here...

19 MS. RUSSO: Page two of the proxy statement.

20 MR. MOORE: Informally, after the meeting,
21 that's a pretty standard practice with a lot of
22 corporations, to have an informal Q and A with
23 shareholders.

24 (Discussion held off the record.)

25 MS. RUSSO: Just real quick. The procedure

1 for directors nominees is on page eight of the
2 proxy statement.

3 CHAIRMAN SARAF: I would rather you submit
4 your question in writing and we will respond to
5 them.

6 MR. MOORE: Why is that? I mean, this is
7 just an informal thing and, like I said, it's
8 standard practice for, you know, a lot of
9 companies that receive decent valuations in the
10 marketplace -- certainly, never below-their-neck
11 cash, you know, regarding holdings -- Berkshire
12 Hathaway, Fairfax, you know, a lot of really
13 respected companies do this sort of thing after
14 their annual meetings. You know, I've been to
15 several meetings where they do that, and I'm
16 sure several other shareholders would agree with
17 me, like Mercor and Alex.

18 CHAIRMAN SARAF: Please submit your question
19 in writing, and I will answer to each and every
20 one of you.

21 MR. CLARKE: Why do you have that policy? I
22 mean, we're trying to be, you know, helpful
23 here. I mean, I think that, basically, like
24 most of the people here are here because it is
25 trading for below-its-neck cash; which basically

1 the marketplace making evaluation that the
2 company is worth nothing, it's worth negative,
3 and the cash is only valued here.

4 We're basically just -- or, you know, here
5 to understand why that is. I mean, I know
6 there's been a history of confrontation. This
7 is my first time here.

8 CHAIRMAN SARAF: I don't see it as a
9 confrontation. Excuse me.

10 MR. CLARKE: Well, I know.

11 MR. MOORE: But that's the thing, that's how
12 it's perceived by virtually everybody in the
13 room.

14 MR. CLARKE: That's right, that's how it's
15 perceived. And it's, you know -- I mean, I've
16 been to a number of annual meetings, and the
17 two-question rule and, you know, the formality
18 for everything, it's a little frustrating, you
19 know, because in --

20 MR. CONANT: We want the company to do well.
21 We're here to support you. This is not a
22 us-and-them mentality. And I feel like that's
23 how shareholders are perceived, as we're just
24 this barnacle on the side of the ship that, you
25 know, needs to be scraped off.

1 And, you know, we have a vested interest in
2 the company doing well. And I think that's, you
3 know, a lot of presence here is to support that,
4 you know, we want to support the company.

5 MR. KLINGHOFFER: Could we maybe take a
6 five-minute break before we, you know, finalize
7 anything?

8 MR. CONANT: Sure.

9 (Recess taken at 9:43 a.m. to 9:49 a.m.)

10 CHAIRMAN SARAF: Okay. We decided to do the
11 informal meeting that you requested --

12 MR. CONANT: Thank you.

13 CHAIRMAN SARAF: -- subject to the following
14 understanding. We will not, I repeat, we will
15 not disclose any non-public information; because
16 if somebody has an expectation, like certain
17 shareholders want, it won't happen.

18 We will limit for the next half hour because
19 there are other commitments, people made plane
20 reservations, et cetera, so we cannot go over.

21 MR. KLINGHOFFER: And we would also ask
22 some of the other board members to participate,
23 and they would be happy to participate in this
24 conversation, so...

25 MR. CONANT: Great. We appreciate this.

1 Thank you.

2 CHAIRMAN SARAF: You're welcome. Go ahead.
3 Who will start going first? Go ahead.

4 MR. REIF: I have a question about
5 marketing. I know one way you can grow is,
6 obviously, get out to more businesses and all
7 that, and I was wondering if you could discuss
8 how you market your business to the large
9 defense contractors. Is it you, personally,
10 that visits? Do you go to conferences?

11 Do you have other people who support your
12 work in that regard that you'd consider maybe
13 expanding the marketing staff to increase your
14 business?

15 CHAIRMAN SARAF: To be honest with you, the
16 best marketing tool we have is word of mouth.
17 Because we have a community of device engineers,
18 process engineers, in all the major companies
19 who has done business with us and know our
20 reputation and have come for us -- come to us.
21 That's the best.

22 Inasmuch as conferences, the reality is that
23 now companies do not spend money on sending
24 their engineers to conferences, so that will be
25 just a waste of funds.

1 MR. REIF: See, I mean, so you're confident
2 that the whole -- all defense contractors know
3 Solitron, know what you do, and are confident
4 talking to you?

5 CHAIRMAN SARAF: That's the best tool.

6 MR. REIF: Yeah, that part I understand. I
7 was in the defense business, so I kind of
8 understand what goes on.

9 CHAIRMAN SARAF: Okay.

10 MR. REIF: But you work with the purchasing
11 manager -- not purchasing manager -- but the top
12 level project managers, the design engineers,
13 and stuff, of the various weapons contractors,
14 and they're all familiar with the --

15 CHAIRMAN SARAF: And the other thing is, if
16 you ever stop at the company, I will show you
17 samples, or you can look on our website, how
18 many different packages we make.

19 And I have a common joke, that the engineers
20 want to leave their imprint on society by
21 designing the package just like this, and we
22 provide that to them. So that's --

23 DIRECTOR DAVIS: Let me comment on that.
24 You indicated you were in the defense business.
25 I was in the defense business for 30 years,

1 also, with Harris Corporation, in the
2 semiconductor business.

3 And the industry knew Solitron, I think, for
4 a long period of time as a supplier. It was
5 kind of a niche market-oriented supplier.

6 When it went through the bankruptcy issue
7 and came out, I think many of the purchasing
8 people that had program managers on large
9 programs remembered them and still use them.

10 As a matter of fact, many of the large
11 defense programs now have almost a sole-source
12 position with Solitron. Word of mouth, I think,
13 is probably his single-largest marketing tool.

14 I say word of mouth and performance.
15 Because you know very well, with the military,
16 if you don't perform, somebody's going to get
17 his hand hurt; and quite often, it's the program
18 manager and the large program that does it.

19 I found that, in the military business, if
20 you protected your program managers that worked
21 for the government you didn't have to do a lot
22 of marketing. If you change industries, you do.
23 If you get out of that.

24 I've seen companies in the military business
25 that decided they wanted to go into the high

1 rail business. As a matter of fact, one of my
2 divisions did, decided they wanted to supply
3 parts for Medtronics, which made pacemakers.

4 But that's a different environment. That's
5 a different world. And we found that we didn't
6 work quite as well in that environment. We
7 needed to stick to our knitting; we need to do
8 what we did well.

9 I think Shevach -- Mr. Saraf has done that,
10 and I think the industry knows him well. I
11 think the military industry knows him well. I
12 still attend military conferences occasionally,
13 and I find that his organization is well
14 respected in it.

15 So, probably he could -- if he could find a
16 unique person that could combine sales and
17 marketing in the military, it would be worth
18 hiring that individual. And I think he probably
19 would, if he could, if he could find one.

20 But they're kind of a unique -- they're
21 unique animals. They're typically all program
22 managers. Program managers turn out to be
23 marketing guys, sales guys, operational guys.
24 Well, you know that.

25 So, I think he's -- I think he's

1 positioned -- he is positioned in a technology,
2 though, that is kind of a sunset technology, as
3 he indicated. Hopefully, the military's going
4 to continue to see need for that.

5 Change in the military profiles, a change in
6 the military tactical operations could
7 significantly affect that because he has a --
8 his -- most of his product line is directed
9 toward long delivery systems.

10 CHAIRMAN SARAF: Any other questions? Jeff,
11 I thought you indicated a desire to have this
12 open meeting, so go ahead.

13 MR. MOORE: This is like kind of to all the
14 directors, kind of with your personal holdings
15 in various companies. I'm curious as to what
16 you guys look for when you are acquiring a
17 stock, you know, because I don't think that any
18 of you all just own Solitron Devices shares; and
19 how do you view, say, re-purchases as being a
20 creative -- or, you know, kind of diminishing to
21 the value of a corporation, same thing with
22 dividend policies, what do you guys generally
23 look for?

24 DIRECTOR KOPPERL: I'll just answer
25 generally. When I'm looking for a stock, I'm

1 buying it for a return. Sometimes a short
2 return. Sometimes a longer return. That can
3 be -- the return can be a dividend, can be
4 growth. It depends. I don't require any stock,
5 any holding with one strategy in mind,
6 personally.

7 MR. MOORE: Okay.

8 MR. CLARKE: Go ahead.

9 MR. TOPPAN: I had a specific company
10 question. Regarding the government's -- you
11 mentioned a year or two ago that they were going
12 to a commercial off-the-shelf product, as
13 opposed to more custom components that you were
14 manufacturing. That was a risk to the company.

15 It now seems that Solitron Devices has
16 benefitted from that endeavor. You mentioned
17 that there are -- it sounds like there's
18 something that may -- or competitors that aren't
19 doing so well -- and we're benefitting as a
20 result -- or going out of business entirely.
21 Was that a change -- was that a surprise to you?

22 CHAIRMAN SARAF: Not really. Because what
23 large companies did -- it's the policy
24 off-the-shelf items, they were buying them and
25 then they spent extra money by doing the extra

1 testing.

2 And they have a higher failure rate, and
3 they are putting their tail among their legs and
4 coming back to us.

5 DIRECTOR SCHLIG: There wasn't an economic
6 value for them.

7 MR. TOPPAN: Right. So it seems like it's,
8 obviously, benefitted the company.

9 CHAIRMAN SARAF: That's correct.

10 MR. TOPPAN: But, initially, I thought it
11 was going to be a problem; that the cheaper
12 stuff worked okay -- but, obviously, it
13 didn't -- or the cost of testing it.

14 CHAIRMAN SARAF: There is other parts; it's
15 that some companies decided to abandon the use
16 of hybrids and, instead of that, using
17 individual component.

18 The advantage of using hybrids is that you
19 can use much less real estate, and much more
20 efficient temperature dissipation, heat
21 dissipation. So they're coming back to hybrids.

22 DIRECTOR DAVIS: Can I comment on this?

23 CHAIRMAN SARAF: Go ahead.

24 DIRECTOR DAVIS: The Pentagon, over a long
25 period of time, have gone through the COTS, the

1 commercial off-the-shelf, they call them. As a
2 matter of fact, you go way back in time, there
3 was an individual who was the Assistant
4 Secretary of Defense, Perry. There may be
5 someone who remembered him. That's way back in
6 time.

7 And he was the first guy that said, look, we
8 can buy this stuff off the shelf, it's cheap,
9 you know, and we pay two dollars for
10 something -- you probably remember that -- you
11 can buy it for 50 cents. Why don't we do that?

12 Well, then they found out, by the time they
13 went through all of the testing, extra testing,
14 and extra handling, and so forth, and the
15 failures and replacing the failures in the
16 field, it didn't work. And that's been cyclical
17 a number of times. They've tried it again.

18 The military has a unique requirement. I
19 mean, they really do. You know, when they send
20 things up in the air, they don't want to hit the
21 wrong person, and they spend a lot. They're
22 willing to -- the military is willing to spend
23 money to get good, quality, reliable product, on
24 time. And they consider all of those important
25 elements of that business profile.

1 They don't want it late. That hurts them.
2 They want it on time. They don't want it to
3 fail. Failures are catastrophic to them. You
4 see it, I mean, these big congressional
5 committee meetings, you know, they want to find
6 out why did that product fail? Failures are
7 horrible to them.

8 The big issue for them -- and they've tried
9 that a number of times -- commercial
10 off-the-shelf just doesn't seem to work.

11 CHAIRMAN SARAF: You know, one more thing.
12 The government came up, lately, they were afraid
13 of counterfeit parts coming from China, so the
14 latest brainy idea, they come up with is DNA
15 marking.

16 Anybody here know that you can mark, with
17 DNA marking, an electronic component?

18 MR. TOPPAN: Some kind of a code they put in
19 there or something?

20 CHAIRMAN SARAF: Yes. You add to some
21 bio-metric code. It will cost them, you know, a
22 company that does similar business stated that
23 instead of a component that used to cost \$800
24 now cost \$8,800 to enable to use DNA marking,
25 and the government spends it. Two years ago --

1 MR. TOPPAN: I'm sorry. Is this something
2 that you have to do now, with Solitron products?

3 CHAIRMAN SARAF: Yes.

4 MR. TOPPAN: You have to have DNA marking on
5 it?

6 CHAIRMAN SARAF: Yes.

7 DIRECTOR SCHLIG: There's a time frame.

8 CHAIRMAN SARAF: For the military, yes.

9 MR. MOORE: Does it add to the profitability
10 of the company, the DNA marking?

11 CHAIRMAN SARAF: We charge for it. We don't
12 do it for free. You know, two years ago, they
13 came up with the crazy scheme that to do
14 hermeticity testing using radioactive gas.
15 There's only -- by the way, sole source company
16 that makes the DNA marking, sole source company
17 that makes this radioactive gas testing.

18 And do you know where the sole source of
19 radioactive gas come from? Russia.

20 MR. TOPPAN: Really?

21 CHAIRMAN SARAF: But they spend the money.

22 DIRECTOR DAVIS: And military product, in
23 general, when you add cost, you can add an
24 element of profit with that cost. The
25 expectation in the government is that you have a

1 right to get a return on your sales.

2 So, any time -- that's why many of the
3 military suppliers do not -- do not argue about
4 the added elements, as long as they're willing
5 to pay for that element, it adds sales value.

6 CHAIRMAN SARAF: You know something
7 interesting about this radioactive testing, we
8 have component on the surface of Mars that we're
9 now testing using this radioactive gas.

10 When I asked why, what's the justification,
11 they gave me the old CIA joke; you know, what it
12 is? We tell you, we need to kill you.
13 Seriously. They wouldn't tell you.

14 And it's sole source, for crying out loud;
15 and you pay for it through the nose. Each
16 machine is half a million dollars.

17 MR. TOPPAN: Can you divulge who that
18 company -- the sole source is, exactly? Or
19 would you have to kill me?

20 CHAIRMAN SARAF: That company -- no, no, no.

21 DIRECTOR SCHLIG: Everyone...

22 FINANCE DIRECTOR LAPLANTE: No. It's
23 handled by -- who is it? -- Eckert and Sigler?
24 I know the name Sigler, one of the names in
25 there, that's the gas. That's just the gas.

1 CHAIRMAN SARAF: I don't remember the name
2 of the company. I can give it to you. It's
3 public domain.

4 MR. TOPPAN: Okay.

5 CHAIRMAN SARAF: The name of the company
6 owned it is Defense Supply Center Columbus,
7 Ohio, specification requirements, there's no
8 secret.

9 MR. TOPPAN: So, if I recall --

10 CHAIRMAN SARAF: Jane, do me a favor, would
11 you note -- take a note of that name, to get it
12 to him?

13 MS. FOGEL: Yes.

14 MR. TOPPAN: So, correct me if I'm wrong,
15 the sales to defense went up as a percent of all
16 sales in the last fiscal year, I believe.

17 I don't know, it might be an outright,
18 absolute end percent of company sales in
19 defense, I thought, increased in the past year.
20 I'm wondering, if that's true, was that just
21 because of these rules, that you have these new
22 markers --

23 CHAIRMAN SARAF: Okay. The DNA marking --

24 MR. TOPPAN: -- and you have to raise the
25 prices?

1 CHAIRMAN SARAF: Time out. The DNA marking,
2 we are just acquiring this capability.

3 MR. TOPPAN: Okay.

4 CHAIRMAN SARAF: We are just acquiring. But
5 the Redi-flo, the radioactive testing, was two
6 years ago, and it's ongoing.

7 DIRECTOR DAVIS: It was, yeah.

8 MR. TOPPAN: Okay. Can I ask another
9 question?

10 CHAIRMAN SARAF: Go ahead.

11 MR. TOPPAN: And again, I don't know,
12 unfortunately, a lot about the specific
13 products. But the product that you sell is all,
14 I believe, analog?

15 Is there such thing as digital circuits that
16 could replace or digital semiconductors that
17 could be a challenge to your analog products?

18 CHAIRMAN SARAF: Let me put it to you this
19 way. Our products are used, figure of speech,
20 for power supplies.

21 DIRECTOR DAVIS: Predominantly.

22 CHAIRMAN SARAF: And the power supplies are
23 used on any electronic device that you may use:

24 In the charger for your phone, there's a
25 power supply in the computer that you use,

1 there's a power supply in the TV, and on, and
2 on, and on, and on. So, there is not going to
3 be ever a replacement.

4 DIRECTOR DAVIS: No.

5 MR. TOPPAN: Right. That's not something
6 you can digitize or -- I'm just wondering if
7 there's some competition coming down the road?

8 DIRECTOR DAVIS: Well, there have been
9 efforts to do that, technically, but it's not
10 been successful. Typically, power management,
11 in and of itself, is almost uniquely an analog
12 kind of reaction. And a lot of Mr. Saraf's
13 products are power supply-oriented products.

14 One of the unique capabilities he has, I
15 think, is his packaging capability. Many of you
16 have, you know, the little iPads, and so forth,
17 and you've got little power supplies that go
18 with them.

19 A lot of times your iPad will lock up, and
20 you don't know why it locks up. It locks up
21 because it's heating up, the power supply is
22 getting too hot.

23 And he has some packaging capabilities that
24 allows him to make products that can dissipate
25 the heat better; and so, consequently, his

1 product operates better.

2 He's got some unique products. They are --
3 if you build a tremendously large computer, you
4 still don't need but one power supply. The
5 volume of his product is not like digital
6 products. That's why a lot of the digital
7 products are extremely hot.

8 CHAIRMAN SARAF: Another example of, I'll
9 use it, is in missiles; the steering mechanism
10 in the back of the missile are powered by power
11 amplifiers that we make, so that's another
12 example.

13 MR. TOPPAN: Do you have engineers or are
14 you, yourself, do you work on, maybe, smarter,
15 cheaper, but very reliable ways to package?

16 Now, I understand you use a lot of gold, for
17 instance, right in your packaging. Is there
18 some substitute material that you maybe are
19 working on or to test the system?

20 CHAIRMAN SARAF: To start with, 90 percent
21 of the product we make, we get the design from
22 the customers. They tell us what they want to
23 be put in, what package it will be in, so they
24 give it to us. And our engineers, basically, do
25 the packaging work and the testing work

1 associated with it.

2 MR. CLARKE: I had a question on the same
3 lines. The 10-K mentions the cost of gold being
4 a significant factor. I mean, can you sort of
5 quantify at all how significant a factor? I
6 mean, like when gold -- when the parts of gold
7 doubles, how much of an impact would that have
8 on the company?

9 CHAIRMAN SARAF: To start with, when we do
10 the pricing, we do factoring on a projection of
11 historic prices we pay for gold. So that
12 depends. In the last year, I don't know if you
13 knew, but the price of gold had dropped a few
14 percent, so it's up and down.

15 MR. CLARKE: Right, yeah.

16 CHAIRMAN SARAF: And one thing that they --
17 none of us realized, most of our packages, not
18 all of them, are made of copper. And, right or
19 wrong, the largest consumer of copper in the
20 world is China. And the prices of copper
21 nowadays is most significant in our material
22 cost than gold. But that's -- yeah?

23 MR. MATIENZO: The other big asset you
24 have -- it's not on your balance sheet -- but
25 the net operating losses, the annuals, so I'm

1 wondering how you're thinking about using them?

2 CHAIRMAN SARAF: To start with, over the
3 past -- how many years, 15 years, Arthur?

4 FINANCE DIRECTOR LAPLANTE: Yeah.

5 CHAIRMAN SARAF: -- we've been using it
6 every year. We were paying only nominally
7 taxes, so we -- every year, 800, \$900,000 of the
8 NOL is used by not paying taxes.

9 MR. MATIENZO: Do you intend to do anything
10 other than using not to pay taxes on the profit
11 that you regularly make? I mean, do you want to
12 use -- I don't know how they expire. But do you
13 think that by using them --

14 CHAIRMAN SARAF: To start with, we disclose
15 in the 10-K when they are going to expire.

16 MR. MATIENZO: Twenty-one, yeah. But I
17 don't know the schedule, so I don't know if
18 you're thinking -- so, if you're thinking, let's
19 use them just to not pay taxes, in the same
20 regular way we're using them for a while, or do
21 you think you will make an acquisition, or
22 something that will allow you to use them more
23 quickly and in bigger numbers?

24 CHAIRMAN SARAF: If, and when, we make an
25 acquisition, that will be one potential user of

1 NOL.

2 DIRECTOR SCHLIG: And that has to be handled
3 very carefully under present regulations. They
4 used to be a lot looser in the past. So that
5 we -- conceivably -- we haven't discussed it at
6 board level, and I'm not divulging anything
7 that -- we're just having a conversation across
8 the rather large table, but across the table --
9 namely, the NOL might provide the basis for an
10 upstream merger so that we protect the NOL and
11 we actually merge a larger company into ours.

12 That will, I'm sure, be a consideration that
13 will be taken into account at board level, when
14 when he reach the point where we're setting our
15 future strategy, if you will.

16 MR. TOBIK: I have a few questions. The
17 first is, you've been doing this for a long
18 time, your job. What do you love about your
19 job?

20 DIRECTOR DAVIS: Board meetings.

21 DIRECTOR GERRITY: Board meetings.

22 DIRECTOR DAVIS: It must have been obvious
23 that he does not necessarily like annual
24 meetings.

25 The other thing, though, really, I mean, I

1 think that was a fair question, the annual
2 meeting issue; because for a significant period
3 of time the company was in bankruptcy.

4 And I came on the board after I retired from
5 a larger company that did a lot of military
6 work. He was -- this company was really
7 struggling. It had -- at one time, Solitron had
8 been a star, you know, so to speak.

9 And whether the existing management group,
10 when it was a star, misused it, or whatever, it
11 went into bankruptcy. And when it went into
12 bankruptcy, it was in deep trouble, it really
13 was.

14 And I -- you know, I admired the dedication
15 and loyalty and attitude that Mr. Saraf had for
16 the company. He was not going to fail. That
17 was not an option.

18 DIRECTOR SCHLIG: It was in his DNA.

19 DIRECTOR DAVIS: He put tremendous effort
20 into it. He may not have done everything the
21 way you guys think he should have done, but
22 you've got to give him credit for doing what he
23 thought was right at the time he had the
24 information when he executed that action.

25 DIRECTOR SCHLIG: On a trend basis, you're

1 giving credit for the results he produced in
2 running, managing your company.

3 DIRECTOR DAVIS: I think a lot of the things
4 are behind him now, a lot of the environmental
5 issues are out of the way. And environmental
6 issues are panic issues.

7 You want to merge with somebody and you tell
8 him, oh, by the way, I've got an environmental
9 issue.

10 They go, yeah, well, we'll see you in five
11 or six years when you finish that.

12 And he's got many of the environmental
13 issues behind him. He is looking now toward the
14 end of the tunnel, 60 days or something, you
15 know.

16 And I think there's a lot of future and
17 future options that have not been exercised in
18 the past that can be exercised in the near
19 future and in the next few years. I think this
20 is a good precedent. You know, I think this
21 meeting is a good precedent, because you've
22 started something.

23 CHAIRMAN SARAF: You know something, people
24 don't realize the tenacity of the EPA. We
25 emerged from Chapter 11 in August of '93. We

1 reached the ability to pay agreement with the
2 EPA seven years ago. Count how many years it
3 took.

4 And even now you cannot get answers from
5 them, not logical answers, to start with.

6 MR. TOBIK: Thank you for the response.

7 So, as a follow-up to that, clearly, as a
8 large shareholder, you've seen the stock price
9 language, and it's probably, in part, due to the
10 outstanding environmental liabilities.

11 But does the share price concern you as
12 large stockholders, and what do you attribute it
13 to, mostly?

14 CHAIRMAN SARAF: The fact that we are small,
15 unknown company, that's a key part of it. Even
16 the acquisition of one hundred thousand shares
17 barely moved the stock price.

18 I know some of you think, oh, what happened
19 about buy-back of shares? I do not know how
20 much the impact would be, if any. It's remained
21 to be seen what impact can paying or not paying
22 dividend will do.

23 Because if you take an example, a large
24 company called Apple, for years they have not
25 paid dividends. I think in the recent 12 months

1 they decided to pay dividends, and what happened
2 to the stock prices of Apple? In the dumps.

3 MR. TOBIK: Well, I think that --

4 CHAIRMAN SARAF: You know, I don't know what
5 drive prices in the stock market. It's -- some
6 of you guys follow it on a daily basis.

7 DIRECTOR DAVIS: That would be a good
8 question for you guys; if any of you know what
9 drives prices in the stock market, I'd like to
10 know.

11 MR. TOBIK: If I could offer one idea, and I
12 don't think this is the end all/be all. But I
13 do think that the marketplace values
14 information. And one thing that has changed
15 recently -- and this meeting is an example of
16 it -- is more information from the company.

17 And I've also noticed that you released --
18 you could almost call it a stream of 8-K
19 announcements over the past few months. I think
20 that that's been very valuable to helping people
21 discover and learn what decisions the company is
22 making. So, I was just curious, if you plan to
23 try to make more disclosures like that on a kind
24 of regular basis?

25 CHAIRMAN SARAF: Let me put in this way,

1 whenever the SEC rules calls for us to issue
2 8-K, we issue 8-K.

3 I will not issue 8-K with the public
4 announcement if we got the contract for a
5 product ABCD from Raytheon and Lockheed Martin,
6 because, if nothing else, I'm alerting the
7 competition. So we will issue as much as makes
8 sense.

9 MR. TOBIK: Okay. That makes sense. I just
10 have one more question, if it's all right for me
11 to continue.

12 What advantages do you think Solitron could
13 realize by inviting a large shareholder, such as
14 Jay Shems (ph), or Alex, or one of the other
15 large shareholders that's involved in the
16 company to join the board and participate?

17 CHAIRMAN SARAF: I think the key yardstick
18 for a board member is his or her ability to
19 contribute to the company, and you need to have
20 industry knowledge.

21 And the gentleman in question is a very nice
22 guy, but he does not have industry know-how. So
23 what will he be able to contribute?

24 MR. TOBIK: Are you asking me or --

25 CHAIRMAN SARAF: No. I don't see.

1 Personally, I don't see.

2 MR. CONANT: I have a question. John
3 Stayduhar, I believe he was the former CEO
4 before the bankruptcy, right?

5 CHAIRMAN SARAF: He was the former chairman,
6 right.

7 MR. CONANT: So, he's still a large
8 shareholder. I was wondering, is he involved,
9 does the company have any contact with him?

10 CHAIRMAN SARAF: Zero. Let me put it to you
11 this way. When the company emerged from
12 Chapter 11, a large chunk of shares, 25 percent,
13 were given to a former secured creditor, SV and
14 Vector, now, SV Microwave.

15 There was an agreement that they needed to
16 pay him over five years' salary, and they did
17 not. So he sued them. And the settlement, they
18 gave him the shares. So this is how he got the
19 shares. And he has zero involvement. He
20 doesn't even return phone calls.

21 MR. CONANT: Okay. That's good to hear.

22 MR. CLARKE: Sales to foreign customers, at
23 roughly 15 percent, up from about 6 percent from
24 the year before --

25 CHAIRMAN SARAF: Say it again.

1 MR. CLARKE: Sales to foreign customers, in
2 the 10-K --

3 CHAIRMAN SARAF: Yes.

4 MR. CLARKE: -- went up to 15 percent, from
5 6 percent. Was that a -- I mean, is that a
6 blip? Should we expect that to be continuing at
7 that rate or --

8 CHAIRMAN SARAF: Let me put it to you this
9 way. This is a fact. But it's affected by the
10 fact that the government has work share
11 agreement with countries like Australia, Norway,
12 Israel, whatever. So the design may be owned by
13 Raytheon, and Raytheon is forced to give some of
14 the work to BAE in Australia.

15 MR. CLARKE: So, you're still basically
16 going through the U.S. government to get to
17 Australia?

18 CHAIRMAN SARAF: For all intents and
19 purposes, it's -- wait. Correction. U.S.
20 government and foreign military sales.

21 MR. CLARKE: Right. Right.

22 DIRECTOR DAVIS: The element of the
23 government that is involved in foreign military
24 sales is what he gets. If they sold aircraft,
25 and if the aircraft needs maintenance and parts,

1 and so forth, those aircraft may be sold to
2 other countries.

3 I don't -- my suspicion is if he tried to
4 sell unique products directly into a new design
5 in some -- in Iran, my suspicion is that he
6 would probably get a little tickler about, you
7 know, maybe you shouldn't do that.

8 MR. CLARKE: There's a number of countries
9 that are -- you know.

10 CHAIRMAN SARAF: Well, wait. Before you
11 send overseas, you must get from them end-user
12 certificates.

13 DIRECTOR DAVIS: You have to get
14 an end-user, right.

15 CHAIRMAN SARAF: In order to get an export
16 license, and the U.S. government will stop it.

17 DIRECTOR DAVIS: The export license -- when
18 I was in the business, the export license for
19 foreign sales that were not sanctioned through
20 the Pentagon, so to speak, were very difficult
21 to get, but the license for foreign sales.

22 MR. CLARKE: Can you give a little bit more
23 like color on the non-military applications,
24 which you think are the biggest, which you think
25 are the most promising in the future?

1 CHAIRMAN SARAF: For awhile, we were making
2 semiconductor that were used for hearing aids,
3 and that was profitable, until our friends in
4 China moved into the territory. Those sales
5 were booming, by the way, when Bill Clinton was
6 president and it was published that he was using
7 hearing aids, so that area exploded.

8 MR. CLARKE: I didn't know that.

9 CHAIRMAN SARAF: No. Those are facts, you
10 know.

11 MR. CLARKE: No, I don't dispute it. I just
12 didn't realize. There's something that -- in
13 the 10-K about the world-wide supply of
14 three-inch wafers dwindling. I'm not a
15 technical expert, but can you sort of explain
16 like why it's dwindling and like, you know --

17 DIRECTOR DAVIS: You want to answer that?

18 CHAIRMAN SARAF: I'm going to let you start,
19 then I add.

20 DIRECTOR DAVIS: Okay. That's primarily due
21 to the fact that the large -- the large users of
22 silicon wafers now -- and you can probably
23 recognize a lot of them, Intel, you know,
24 companies like that -- they do not use
25 three-inch wafers.

1 They use platters now, 16, 18 inches. And
2 the equipment to maintain the ability to pull a
3 single crystal ingot -- that is that big bar of
4 silicon -- is tremendously expensive. So once
5 they buy equipment to pull the larger diameter
6 ingot, they sort of get rid of the old stuff.
7 So it's very, very difficult to keep
8 multiple-sized wafers running at the same time.
9 The equipment is just too expensive.

10 And there is a limited supply of three-inch
11 wafers. As a matter of fact, my suspicion is
12 now, even if you moved up to six-inch wafers, or
13 eight-inch wafers, or nine-inch wafers, you'd
14 find a limited supply because most people have
15 gone to things that look like pizzas, almost, in
16 a wafer. They don't handle them by hand
17 anymore. They use like little forklift things
18 to move them and stuff.

19 So the industry has moved very rapidly with
20 wafer size. That's the reason you can buy --
21 that's the reason you can buy a one gigabyte ram
22 now for, what, ten bucks? Because of that.

23 CHAIRMAN SARAF: I will -- one more point.

24 DIRECTOR DAVIS: Go ahead.

25 CHAIRMAN SARAF: The danger of us not being

1 able to obtain mostly three-inch wafers may
2 force us to go to a larger size, which will
3 require a huge investment in capital. And the
4 other side, it will be both equipment and we
5 need to re-qualify everything we make. And that
6 will cost -- may cost five, six, seven, eight,
7 ten million dollars in costs.

8 DIRECTOR DAVIS: Yeah, big costs.

9 CHAIRMAN SARAF: So, this is another reason
10 why we must maintain reasonable cash on hand,
11 because if it will happen, that may be a real
12 problem.

13 MR. CLARKE: Right.

14 DIRECTOR DAVIS: People have even considered
15 the possibility of this supply of three-inch
16 wafers goes away, so to speak, that they would
17 buy a larger ingot of silicon and grind it
18 down, and so that grinding away to three-inch
19 and then slice it out.

20 So that's a very expensive process, and it's
21 a very expensive issue. That's part of the
22 reason that there was a necessity to keep some
23 money on the balance sheet. And it kind of had
24 to be -- it kind of had to be available, because
25 borrowing money with an EPA issue over your head

1 wasn't going to be easier either.

2 CHAIRMAN SARAF: Well, people don't want to
3 talk to you if you have an EPA overhang.

4 MR. CLARKE: The impact of the sequestration
5 or, you know, an increase in military spending,
6 if there is, in Syria, or something like that,
7 an issue, if -- I mean, if government -- if
8 military spending goes up 5 percent, do you
9 think that -- like that would increase and the
10 impact on you would be 5 percent? I mean, I'm
11 trying to --

12 CHAIRMAN SARAF: I cannot tell you.

13 MR. CLARKE: Not exactly. But, I mean, is
14 it a one-to-one impact or is there a multiplier
15 involved?

16 CHAIRMAN SARAF: I cannot tell you. It
17 depends on which programs they will decide to
18 put the spending on.

19 MR. CLARKE: I know. But, I mean, just
20 generally speaking, what industry does in --

21 DIRECTOR DAVIS: I think, in general, almost
22 all of the military suppliers in the
23 semiconducting industry would say to you, if
24 military spending goes up in large systems,
25 that's going to be a favorable outlook for us.

1 MR. CLARKE: I know. But, obviously, it's
2 good if it goes up, bad if it goes down. But, I
3 mean, just in terms of like the 5 percent, it
4 goes up 5 percent, it goes up 8, it goes up 3?

5 DIRECTOR DAVIS: My participation in the
6 industry didn't indicate that there was a
7 one-to-one relationship between going up 18
8 percent and you getting an 18 percent increase
9 in sales. And that's predominantly, I think,
10 due to the fact that the programs are secular;
11 that is to say, he has a number of programs and
12 another supplier has a number of different ones.

13 So, if those particular missiles or programs
14 increase in the numbers requirement, then he
15 would see the impact. But the other guy may not
16 see it. It's very program oriented.

17 MR. CLARKE: Right. So, basically, a black
18 box?

19 DIRECTOR DAVIS: Yes.

20 CHAIRMAN SARAF: Okay. Thank you, guys.

21 MR. CONANT: Thank you very much.

22 MR. CLARKE: Just one more minor topic.
23 There's a number of 404 errors on the web page.
24 I just wanted to point that out; that when you
25 click on a number of --

1 CHAIRMAN SARAF: Would you please let us
2 know, so we'll have the webmaster take care
3 of it.

4 MR. CLARKE: Sure. If you just go and look
5 and click on each of the headings and you click
6 on the subheading, like --

7 FINANCE DIRECTOR LAPLANTE: Does it say
8 what, "404 server not available?"

9 MR. CLARKE: Yeah.

10 CHAIRMAN SARAF: I will have it checked out.

11 MR. MOORE: One question to you. I can't be
12 the only person worried about this, the drones,
13 like if drones that are flying over us probably
14 right now and, you know, out in the --

15 DIRECTOR DAVIS: No...

16 MR. MOORE: Are -- right. Yeah. Like the
17 company do -- does anything that the company
18 makes contribute to the drone program or
19 anything associated with the drone program?

20 CHAIRMAN SARAF: Let me put it this way,
21 because of weight consideration, most likely not
22 too much. Thank you.

23 (Board meeting concluded at 10:26 a.m.)

24

25

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