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MICROPAC INDUSTRIES INC  
Form 10-Q  
October 13, 2009

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 29, 2009  
OR

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

Commission File Number 0-5109

MICROPAC INDUSTRIES, INC.

Delaware	75-1225149
-----	-----
(State of Incorporation)	(IRS Employer Identification No.)
905 E. Walnut, Garland, Texas	75040
-----	-----
(Address of Principal Executive Office)	
(Zip Code)	
Registrant's Telephone Number, including Area Code	(972) 272-3571
	-----

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

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

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

Large accelerated filer  Accelerated filer

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Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

On October 13, 2009 there were 2,578,315 shares of Common Stock, \$.10 par value outstanding.

MICROPAC INDUSTRIES, INC.

FORM 10-Q

August 29, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

MICROPAC INDUSTRIES, INC.  
CONDENSED BALANCE SHEETS  
(Dollars in thousands)

ASSETS

	(Unaudited)	
CURRENT ASSETS	08/29/09	11/30/08
	-----	-----
Cash and cash equivalents	\$ 5,912	\$ 6,522
Short-term investment	1,000	0
Receivables, net of allowance for doubtful accounts of \$89	2,977	3,243
Inventories:		
Raw materials	3,134	2,368
Work-in process	2,547	2,696
	-----	-----
Total Inventories	5,681	5,064
Prepaid expenses and other current assets	78	123
Deferred income tax	631	632
	-----	-----
Total current assets	16,279	15,584
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	882	796
Machinery and equipment	6,558	6,488
Furniture and fixtures	623	603
	-----	-----
Total property, plant, and equipment	8,641	8,465
Less accumulated depreciation	(7,261)	(7,069)
	-----	-----

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Net property, plant, and equipment	1,380	1,396
	-----	-----
Total assets	\$ 17,659	\$ 16,980
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 942	\$ 1,169
Accrued compensation	382	631
Other accrued liabilities	167	310
Deferred revenue	1,181	204
Income taxes payable	82	94
	-----	-----
Total current liabilities	2,754	2,408
	-----	-----
DEFERRED INCOME TAXES	97	97
SHAREHOLDERS' EQUITY		
Common stock, (\$.10 par value), authorized 10,000,000 shares, 3,078,315 issued and 2,578,315 outstanding at August 29, 2009 and November 30, 2008	308	308
Paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	14,865	14,532
	-----	-----
Total shareholders' equity	14,808	14,475
	-----	-----
Total liabilities and shareholders' equity	\$ 17,659	\$ 16,980
	=====	=====

See accompanying notes to financial statements.

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MICROPAC INDUSTRIES, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Dollars in thousands except share data)  
(Unaudited)

	Statement of Operations		Statement o
	For the three months ended		For the nine
	08/29/09	08/30/08	08/29/09
	-----	-----	-----
NET SALES	\$ 3,812	\$ 5,321	\$ 13,299

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COST AND EXPENSES:

Cost of goods sold	(2,763)	(3,396)	(9,469)
Research and development	(165)	(110)	(400)
Selling, general & administrative expenses	(872)	(872)	(2,565)
	-----	-----	-----
Total cost and expenses	(3,800)	(4,378)	(12,434)
	-----	-----	-----
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	12	943	865
Interest and other income	36	35	58
	-----	-----	-----
INCOME BEFORE TAXES	\$ 48	\$ 978	\$ 923
Provision for taxes	(17)	(330)	(332)
	-----	-----	-----
NET INCOME	\$ 31	\$ 648	\$ 591
	=====	=====	=====
NET INCOME PER SHARE, BASIC AND DILUTED	\$ 0.01	\$ 0.25	\$ 0.23
DIVIDENDS PER SHARE	\$ 0.00	\$ 0.00	\$ 0.10
WEIGHTED AVERAGE OF SHARES, Basic and diluted	2,578,315	2,578,315	2,578,315

See accompanying notes to financial statements.

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MICROPAC INDUSTRIES, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(Unaudited)

	For nine months ended	
	8/29/09	8/30/08
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 591	\$ 1,264
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	192	190
Gain on sale of equipment	0	(2)
Changes in current assets and liabilities:		
Accounts receivable	266	(724)
Inventories	(617)	(709)
Prepaid expenses and other current assets	46	(28)
Deferred revenue	977	(175)
Accounts payable	(227)	214
Accrued compensation	(249)	(41)

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Other accrued liabilities	(4)	(143)
Income taxes payable	(12)	(93)
	-----	-----
Net cash provided by (used in) operating activities	824	(108)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchases)/sales of investments	(1,000)	1,621
Proceeds from sale of equipment	0	9
Additions to property, plant and equipment	(176)	(346)
	-----	-----
Net cash provided by (used in) investing activities	(1,176)	1,284
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
	-----	-----
Net cash used in financing activities	(258)	(258)
	-----	-----
Net change in cash and cash equivalents	(610)	918
Cash and Cash Equivalents at beginning of period	6,522	4,394
	-----	-----
Cash and Cash Equivalents at end of period	\$ 5,912	\$ 5,312
	=====	=====
Supplemental Cash Flow Disclosure		
Cash Paid For Income Taxes	\$ 345	\$ 805
	=====	=====

See accompanying notes to financial statements.

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MICROPAC INDUSTRIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

Note 1 BASIS OF PRESENTATION

In the opinion of management, the unaudited financial statements include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position as of August 29, 2009, the cash flows for the nine months ended August 29, 2009 and August 30, 2008, and the results of operations for the three months and nine months ended August 29, 2009 and August 30, 2008. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2008. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and

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regulations promulgated by the Securities and Exchange Commission. However, management believes that the disclosures contained are adequate to make the information presented not misleading.

### Note 2 SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

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The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 sales and expenses during the reporting period. Actual results could differ from those estimates.

#### Revenue Recognition

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Revenues are recorded as deliveries are made based upon contract prices. Any losses anticipated on fixed price contracts are provided for currently. Sales are recorded net of sales returns, allowances and discounts.

#### Inventories

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Inventories are stated at lower of cost or market value and include material, labor and manufacturing overhead. All inventories are valued using the FIFO (first-in, first-out) method of inventory valuation. The Company provides an allowance for obsolete and overstocked inventory.

#### Income Taxes

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The Company accounts for income taxes using the asset and liability method. Under this method the Company records deferred income taxes for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The resulting deferred tax liabilities and assets are adjusted to reflect changes in tax law or rates in the period that includes the enactment date.

#### Property, Plant, and Equipment

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Property, plant, and equipment are carried at cost, and depreciation is provided using the straight-line method at rates based upon the following estimated useful lives (in years) of the assets:

Buildings.....	15
Facility improvements.....	8-15
Machinery and equipment.....	5-10
Furniture and fixtures.....	5-8

Repairs and maintenance are charged against income when incurred. Improvements which extend the useful life of property, plant, and equipment are capitalized.

#### Research and Development Costs

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Costs for the design and development of new products are expensed as incurred.

Note 3 RELATED PARTY TRANSACTIONS

Mr. Eugene Robinson, a director of the Company and member of the Company's audit committee, provides advisory services to the Company. Mr. Robinson has been paid \$6,250 for the nine months ended August 29, 2009.

Note 4 STOCK-BASED COMPENSATION

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of August 29, 2009 there were 500,000 options available to be granted. No options have been granted to date.

Note 5 COMMITMENTS

On June 1, 2008 the Company renewed an uncollateralized \$3,000,000 line of credit agreement with a bank for a term of two (2) years. The interest rate is equal to the prime rate less 1/4%. The line of credit requires that the Company maintain certain financial ratios. The financial covenants require the Company to maintain a quick ratio of at least 1:1, maintain a tangible net worth of \$10,000,000 plus 75% of future net income, and maintain a total liabilities to tangible net worth of less than 1.25:1. The Company is in compliance with these covenants. The Company has not, to date, used any of the available line of credit.

Note 6 EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the year. Diluted earnings per share gives effect to all dilutive potential common shares. For the three and nine months ended August 29, 2009 and August 30, 2008, the Company had no dilutive potential common stock.

Note 7 SHAREHOLDERS' EQUITY

On December 19, 2007, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.10 per share dividend to all shareholders of record on January 25, 2008. The dividend payment was paid to shareholders on February 8, 2008.

On January 12, 2009, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of \$0.10 per share for shareholders of record as of January 26, 2009. The dividend payment was paid to shareholders on February 9, 2009.



MICROPAC INDUSTRIES, INC.  
(Unaudited)

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

Business

Micropac Industries, Inc. (the "Company"), a Delaware corporation, manufactures and distributes various types of hybrid microelectronic circuits, solid state relays, power operational amplifiers, and optoelectronic components and assemblies. The Company's products are used as components in a broad range of military, space and industrial systems, including aircraft instrumentation and navigation systems, power supplies, electronic controls, computers, medical devices, and high-temperature (200o C) products. The Company's products are either custom (being application specific circuits designed and manufactured to meet the particular requirements of a single customer) or standard, proprietary components such as catalog items.

The Company's facilities are certified and qualified by Defense Supply Center Columbus (DSCC) to MIL-PRF-38534 (class K-space level), MIL-PRF-19500 JANS (space level), and MIL-PRF-28750 (class K space level) and is certified to ISO 9001-2002. Micropac is a NASA core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification.

The Company's core technology is the packaging and interconnect of miniature electronic components, utilizing thick film and thin film substrates, and forming microelectronics circuits. Other technologies include light emitting and light sensitive materials and products, including light emitting diodes and silicon phototransistors used in the Company's optoelectronic components and assemblies.

Results of Operations

	Three months ended		Nine months ended	
	8/29/2009	8/30/2008	8/29/2009	8/30/2008
NET SALES	100.0%	100.0%	100.0%	100.0%
COST AND EXPENSES:				
Cost of Goods Sold	72.5%	63.8%	71.2%	63.8%
Research and development	4.3%	2.1%	3.0%	2.1%
Selling, general & administrative expenses	22.9%	16.4%	19.3%	16.4%
Total cost and expenses	99.7%	82.3%	93.5%	82.3%

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OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	0.3%	17.7%	6.5%	1
Interest and other income	0.9%	0.7%	0.4%	
INCOME BEFORE TAXES	1.2%	18.4%	6.9%	1
Provision for taxes	0.4%	6.2%	2.5%	
NET INCOME	0.8%	12.2%	4.4%	

Sales for the third quarter and nine months ended August 29, 2009 totaled \$3,812,000 and \$13,299,000, respectively. Sales for the third quarter decreased 28.4% or \$1,509,000 below sales for the same period of 2008, while sales for the first nine months of 2009 decreased 5.7% or \$804,000 below the first nine months of 2008. Sales were 12% in the commercial market, 50% in the military market, and 38% in the space market for the nine months ending August 29, 2009. The major decreases in sales were to international customers and optoelectronic products sold through the distribution channels. The company expects an increase in sales for the fourth quarter of 2009 with the increase in new orders in the third quarter of 2009.

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Cost of goods sold for the third quarter 2009 versus 2008 totaled 72.5% and 63.8% of net sales, respectively, while cost of goods sold for the nine months ended August 29, 2009 versus August 30, 2008 totaled 71.2% and 67.3%, respectively. The cost of goods sold increase is attributable to changes in product mix with lower sales volume of standard optoelectronic products sold through the distributions channels and space level sales to international customers. With the increase in new orders in the third quarter, the company expects an increase in gross margin for the fourth quarter of 2009.

Selling, general and administrative expenses for the third quarter and first nine months of 2009 totaled 22.9% and 19.3% of net sales, respectively, compared to 16.4% and 17.5% for the same periods in 2008. In actual dollars expensed, selling, general and administrative expenses increased \$99,000 for the first nine months of 2009, versus 2008. The majority of the increase was associated with a cost of living adjustment, associated employment taxes and an increase in employee health insurance costs in May 2009.

Net income for the third quarter and year to date 2009 totaled \$31,000 and \$591,000, respectively, compared to \$648,000 and \$1,264,000 for the comparable periods in 2008. Net income per share totaled \$0.23 and \$0.49 for the comparable nine months of 2009 and 2008.

### Liquidity and Capital Resources

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Cash and short-term investments as of August 29, 2009 totaled \$6,912,000 compared to \$6,522,000 on November 30, 2008, an increase of \$390,000. Cash flow from operations were \$824,000 for the first nine months offset by a cash dividend of \$258,000 and \$176,000 invested in automated production equipment and facility improvements, and \$1,000,000 invested in short-term investments.

The increase in cash and short term investments was primarily attributable to cash from operations of \$824,000, with a decrease in accounts receivable of

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\$266,000, decrease in prepaid expense of \$46,000, an increase in deferred revenue of \$977,000, offset by use of cash with a decrease in accounts payable of \$227,000, a decrease of \$249,000 in accrued payroll, a decrease of \$143,000 in other accrued liabilities, an increase in inventory of \$617,000, and a decrease of \$12,000 in provision for income taxes.

On June 1, 2008 the Company renewed an uncollateralized \$3,000,000 line of credit agreement with a bank for a term of two (2) years. The interest rate is equal to the prime rate less 1/4%. The line of credit requires that the Company maintain certain financial ratios. The financial covenants require the Company to maintain a quick ratio of at least 1:1, maintain a tangible net worth of \$10,000,000 plus 75% of future net income, and maintain a total liabilities to tangible net worth of less than 1.25:1. The Company is in compliance with these covenants. The Company has not, to date, used any of the available line of credit.

The Company expects to generate adequate amounts of cash from the sale of products and services and the collection thereof to meet its liquidity needs.

### Outlook

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New orders for the third quarter and year-to-date 2009 totaled \$7,746,000 and \$15,044,000, respectively, compared to \$6,048,000 and \$17,954,000 for the comparable periods of 2008 or an increase of 28.1% and a decrease of 16.2%, respectively. The increase in new orders from the third quarter of 2008 was associated with an order for one military contract for an existing product. The decrease in new orders compared to year to date 2008 is associated with lower orders from international customers and lower sales volume through the company's distribution channels.

Backlog totaled \$11,438,000 on August 29, 2009 compared to \$11,755,000 as of August 30, 2008 and \$9,723,000 on November 30, 2008. The majority of the backlog is expected to be shipped in the next twelve (12) months and represents a good mix of the company's products and technologies with 5% in the commercial market, 62% in the military market, and 33% in the space market compared to 6% in the commercial market, 50% in the military market, and 44% in the space market at August 30, 2008.

The Company cannot assure that the results of operations for the interim period presented are indicative of total results for the entire year due to fluctuations in customer delivery schedules, or other factors over which the Company has no control.

### Cautionary Statement

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This Form 10-Q contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially. Investors are warned that forward-looking statements involve risks and unknown factors including, but not limited to, customer cancellation or rescheduling of orders, problems affecting delivery of vendor-supplied raw materials and components, unanticipated manufacturing problems and availability of direct labor resources.

Such risks and uncertainties include, but are not limited to historical volatility and cyclicity of the semiconductor and semiconductor capital equipment markets that are subject to significant and often rapid increases and

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decreases in demand. In addition, the Company produces silicon phototransistors and light emitting diode die for use in certain military, standard and custom products. Fabrication efforts sometimes may not result in successful results, limiting the availability of these components. Competitors offer commercial level alternatives and our customers may purchase our competitors' products if the Company is not able to manufacture the products using these technologies to meet the customer demands. Approximately \$879,000 of the Company's backlog is dependent on these semiconductors.

The Company disclaims any responsibility to update the forward-looking statements contained herein, except as may be required by law.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Not applicable

### ITEM 4. CONTROLS AND PROCEDURES

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#### (a) Evaluation of disclosure controls and procedures.

The Chief Executive Officer and Chief Financial Officer of the Company evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) as of August 29, 2009 and, based on this evaluation, concluded that the Company's disclosure controls and procedures are functioning in an effective manner to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

#### (b) Changes in internal controls.

There has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting during the three-month period ended August 29, 2009.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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The Company is not involved in any material current or pending legal proceedings.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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None

ITEM 5. OTHER INFORMATION  
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None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K  
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(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002

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31.2 Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

32.2 Certification of Chief Accounting Officer pursuant to 18 U. S. C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

(b) Reports on Form 8-K

Effective October 10, 2007, the Company's majority shareholder, Mr. Heinz-Werner Hempel, transferred all of the shares of the Company's common stock, \$.10 par value and consisting of 1,952.577 shares to "Micropac Industries, Inc." Vermoegensverwaltungsgesellschaft buergerlichen Rechts. This Partnership is composed of Mr. Hempel, his son and his daughter. As the consideration for this transfer, Mr. Hempel received a 99.98% share in this partnership and retains the sole voting and management control. His son and daughter each own 0.01% in this Partnership.

On December 19, 2007, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.10 per share dividend to all shareholders of record on January 25, 2008. The dividend payment was paid to shareholders on February 8, 2008.

On January 23, 2008, Mr. Nadolsky announced his plan not to run for re-election as a Director and Chairman of the Board of Micropac Industries, Inc. (the "Company") due to health reasons. Mr. Nadolsky continued to serve in such positions until the Company's Annual Shareholder Meeting held on March 7, 2008.

On October 15, 2008, the Board of Directors elected Mr. Eugene A. Robinson, 69, as a director to the board.

On January 12, 2009 the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of

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\$0.10 per share for shareholders of record as of January 26, 2009. The dividend payment was paid to shareholders on February 09, 2009.

SIGNATURES

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

MICROPAC INDUSTRIES, INC.

October 13, 2009

/s/ Mark King

Date

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Mark King  
Chief Executive Officer

October 13, 2009

/s/ Patrick Cefalu

Date

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Patrick Cefalu  
Chief Financial Officer