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MICROPAC INDUSTRIES INC
Form 10-Q
July 14, 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 May 30, 2009

OR

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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):

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Large accelerated filer Accelerated filer
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 July 14, 2009 there were 2,578,315 shares of Common Stock, \$.10 par value outstanding.

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MICROPAC INDUSTRIES, INC.

FORM 10-Q

May 30, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

ASSETS

| CURRENT ASSETS | (Unaudited) 5/30/09 | 11/30/08 |
|--|------------------------|-----------|
| | ----- | ----- |
| Cash and cash equivalents | \$ 7,295 | \$ 6,522 |
| Receivables, net of allowance for doubtful accounts of | 2,371 | 3,243 |
| | | \$ 89 |
| Inventories: | | |
| Raw materials | 2,155 | 2,368 |
| Work-in process | 2,769 | 2,696 |
| | ----- | ----- |
| Total Inventories | 4,924 | 5,064 |
| Prepaid expenses and other current assets | 71 | 123 |
| Deferred income tax | 632 | 632 |
| | ----- | ----- |
| Total current assets | 15,293 | 15,584 |
| | ----- | ----- |
| PROPERTY, PLANT AND EQUIPMENT, at cost: | | |
| Land | 80 | 80 |
| Buildings | 498 | 498 |
| Facility improvements | 882 | 796 |
| Machinery and equipment | 6,521 | 6,488 |
| Furniture and fixtures | 623 | 603 |
| | ----- | ----- |
| Total property, plant, and equipment | 8,604 | 8,465 |
| Less accumulated depreciation | (7,197) | (7,069) |
| | ----- | ----- |
| Net property, plant, and equipment | 1,407 | 1,396 |
| | ----- | ----- |
| Total assets | \$ 16,700 | \$ 16,980 |
| | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

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| | | |
|---|-----------|-----------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 623 | \$ 1,169 |
| Accrued compensation | 390 | 631 |
| Other accrued liabilities | 149 | 310 |
| Deferred revenue | 417 | 204 |
| Income taxes payable | 247 | 94 |
| | ----- | ----- |
| Total current liabilities | 1,826 | 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 May 30, 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 | 14,834 | 14,532 |
| | ----- | ----- |
| Total shareholders' equity | 14,777 | 14,475 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 16,700 | \$ 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 For the three months ended | | State Oper For the e |
|--|---|----------|-------------------------------|
| | 05/30/09 | 05/31/08 | 05/30/09 |
| | ----- | ----- | ----- |
| NET SALES | \$ 4,625 | \$ 4,597 | \$ 9,487 |
| COST AND EXPENSES: | | | |
| Cost of goods sold | (3,334) | (3,189) | (6,706) |
| Research and development | (154) | (123) | (235) |
| Selling, general & administrative expenses | (869) | (812) | (1,693) |
| | ----- | ----- | ----- |
| Total cost and expenses | (4,357) | (4,124) | (8,634) |

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| | | | |
|--|-----------|-----------|-----------|
| OPERATING INCOME BEFORE INTEREST AND INCOME TAXES | 268 | 473 | 853 |
| Interest income | 8 | 23 | 22 |
| INCOME BEFORE TAXES | \$ 276 | \$ 496 | \$ 875 |
| Provision for taxes | (99) | (179) | (315) |
| NET INCOME | \$ 177 | \$ 317 | \$ 560 |
| NET INCOME PER SHARE, BASIC AND DILUTED | \$.07 | \$.12 | \$.22 |
| DIVIDENDS PER SHARE | \$ 0 | \$ 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 six months en 5/30/09 | 5/3 --- |
|---|------------------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 560 | \$ |
| Adjustments to reconcile net income to cash from operating activities: | | |
| Depreciation and amortization | 128 | |
| Gain on sale of equipment | 0 | |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 872 | |
| Inventories | 140 | |
| Prepaid expenses and other current assets | 52 | |
| Deferred revenue | 213 | |
| Accounts payable | (546) | |
| Accrued compensation | (241) | |
| Other accrued liabilities | (161) | |
| Income taxes payable | 153 | |
| | ----- | ----- |
| Net cash provided by operating activities | 1,170 | |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |

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| | | |
|---|----------|-------|
| Changes in investments | 0 | |
| Proceeds from sale of equipment | 0 | |
| Additions to property, plant and equipment | (139) | |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (139) | 1 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividend | (258) | |
| | ----- | ----- |
| Net cash used in financing activities | (258) | |
| | ----- | ----- |
| Net achange in cash and cash equivalents | 773 | 1 |
| Cash and Cash Equivalents at beginning of period | 6,522 | 4 |
| | ----- | ----- |
| Cash and Cash Equivalents at end of period | \$ 7,295 | \$ 5 |
| | ===== | ===== |
| Supplemental Cash Flow Disclosure | | |
| Cash Paid For Income Taxes | \$ 162 | \$ |
| | ===== | ===== |

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 May 30, 2009, the cash flows for the six months ended May 30, 2009 and May 31, 2008, and the results of operations for the three months and six months ended May 30, 2009 and May 31, 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 generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and 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

The preparation of financial statements in conformity with accounting principles

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generally accepted in the United States of America 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

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

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

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

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

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

Note 3 RELATED PARTY TRANSACTIONS

Glast, Phillips & Murray, P.C. serves as the Company's legal counsel. Mr. James K. Murphey, a director and member of the Company's audit committee, is a member of Glast, Phillips & Murray, P.C.

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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 six months ended May 30, 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 May 30, 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 six months ended May 30, 2009 and May 31, 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.

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MICROPAC INDUSTRIES, INC.
(Unaudited)

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE 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 | | Six months ended | |
|---|--------------------|-----------|------------------|-----------|
| | 5/30/2009 | 5/31/2008 | 5/30/2009 | 5/31/2008 |
| | ----- | ----- | ----- | ----- |
| NET SALES | 100.0% | 100.0% | 100.0% | 100.0% |
| COST AND EXPENSES: | | | | |
| Cost of Goods Sold | 72.1% | 69.4% | 70.7% | 69.4% |
| Research and development | 3.3% | 2.7% | 2.5% | 2.5% |
| Selling, general & administrative expenses | 18.8% | 17.6% | 17.8% | 17.6% |
| Total cost and expenses | 94.2% | 89.7% | 91.0% | 89.5% |
| OPERATING INCOME BEFORE INTEREST AND INCOME TAXES | 5.8% | 10.3% | 9.0% | 10.5% |
| Interest income | .2% | .5% | .2% | .5% |
| INCOME BEFORE TAXES | 6.0% | 10.8% | 9.2% | 11.0% |

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| | | | |
|---------------------|------|------|------|
| Provision for taxes | 2.1% | 4.1% | 3.3% |
| NET INCOME | 3.9% | 6.7% | 5.9% |

Sales for the second quarter and six months ended May 30, 2009 totaled \$4,625,000 and \$9,487,000, respectively. Sales for the second quarter increased 0.6% or \$28,000 above sales for the same period of 2008, while sales for the first six months of 2009 increased 8.0% or \$705,000 above the first six months of 2008. Sales were 13% in the commercial market, 52% in the military market, and 35% in the space market for the six months ending May 30, 2009. The major increase in sales was in the microcircuit space level products offset with a decrease in sales to international customers and optoelectronic products through the distribution channels.

Cost of goods sold for the second quarter 2009 versus 2008 totaled 72.1% and 69.4% of net sales, respectively, while cost of goods sold for the six months ended May 30, 2009 versus May 31, 2008 totaled 70.7% and 69.5%, respectively.

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The cost of goods sold increase is attributable to changes in product mix. The increase in cost of goods sold resulted from an overall lower sales volume of optoelectronic products and lower sales to international customers with some offset with the increase in the microcircuit space level products.

Selling, general and administrative expenses for the second quarter and first six months of 2009 totaled 18.8% and 17.8% of net sales, respectively, compared to 17.6% and 18.1% for the same periods in 2008. In actual dollars expensed, selling, general and administrative expenses increased \$101,000 for the first six months of 2009, versus 2008. The majority of the increase was associated with a cost of living adjustment and associated employment taxes and benefits.

Net income for the second quarter and year to date 2009 totaled \$177,000 and \$560,000, respectively, compared to \$317,000 and \$616,000 for the comparable periods in 2008. Net income per share totaled \$.22 and \$.24 for the comparable six months of 2009 and 2008, respectively.

Liquidity and Capital Resources

Cash and short-term investments as of May 30, 2009 totaled \$7,295,000 compared to \$6,522,000 on November 30, 2008, an increase of \$773,000. Cash flow from operations was \$1,170,000 for the first six months offset by a cash dividend of \$258,000 and \$139,000 invested in automated production equipment and facility improvements.

The increase in cash provided by operations was primarily attributable cash from operations of \$688,000, a decrease in inventory of \$140,000, accounts receivable decrease of \$872,000, decrease in prepaid expense of \$52,000, an increase in deferred revenue of \$213,000, an increase of \$153,000 in provision for income taxes offset by use of cash with a decrease in accounts payable of \$546,000, a decrease of \$241,000 in accrued payroll, and a decrease of \$161,000 in other accrued liabilities.

On June 1, 2008 the Company renewed an uncollateralized \$3,000,000 line of credit agreement with a bank. 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

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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

New orders for the second quarter and year-to-date 2009 totaled \$4,285,000 and \$7,298,000, respectively, compared to \$4,891,000 and \$9,733,000 for the comparable periods of 2008 or a decrease of 12.4% and 25.0% respectively. The decrease in new orders is associated with lower orders from international customers and the delay of two military contracts. The two military contracts are expected to be placed in the 3rd quarter of 2009.

Backlog totaled \$7,502,000 on May 30, 2009 compared to \$11,871,000 as of May 31, 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 7% in the commercial market, 59% in the military market, and 34% in the space market compared to 8% in the commercial market, 47% in the military market, and 45% in the space market at May 31, 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

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 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

- (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 May 30, 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 May 30, 2009.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits

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

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- 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 \$.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.

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MICROPAC INDUSTRIES, INC.

July 14, 2009

Date

/s/ Mark King

Mark King
Chief Executive Officer

July 14, 2009

Date

/s/ Patrick Cefalu

Patrick Cefalu
Chief Financial Officer