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MICROPAC INDUSTRIES INC
Form 10QSB
April 12, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 QSB

OMB Approval
OMB Number XXXX-XXXX
Expires Approval Pending
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Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

for the Quarter Ended February 26, 2005

For the Transition Period from _____ to _____
Commission File Number 0-5109

MICROPAC INDUSTRIES, INC.

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 X

No

On February 26, 2005, 2,578,315 shares of Common Stock, \$.10 par value were outstanding.

MICROPAC INDUSTRIES, INC.

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FORM 10-QSB

FEBRUARY 26, 2005

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(a) Exhibits

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.

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

(b) Reports on Form 8-K

SIGNATURES

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ITEM 1 - FINANCIAL STATEMENTS

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

	Statement of Income	
	For three months ended	
	2/26/05	2/28/04
	-----	-----
NET SALES	\$ 4,313	3,510
COST AND EXPENSES:		
Cost of Goods Sold	(2,651)	(2,396)
Research and development	(116)	(43)
Selling, general & administrative expenses	(758)	(642)
	-----	-----
Total cost and expenses	(3,525)	(3,081)
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	788	429
Interest income	15	3
	-----	-----
INCOME BEFORE TAXES	803	432
Provision for taxes	(305)	(164)
	-----	-----
NET INCOME	\$ 498	268
	=====	=====
NET INCOME PER SHARE, BASIC AND DILUTED	\$ 0.19	0.10
DIVIDENDS PER SHARE	\$ 0.12	0.05
WEIGHTED AVERAGE NUMBER OF SHARES, Basic and diluted	2,578,315	2,578,315

These statements reflect all adjustments which, in the opinion of management, are necessary for fair statement of the results for the interim period.

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CONDENSED BALANCE SHEET (Dollars in thousands) (Unaudited)

ASSETS

CURRENT ASSETS	2/26/05 -----	11/30/04 -----
Cash and cash equivalents	\$ 1,943	1,239
Short term investments	1,912	2,507
Receivables, net of allowance for doubtful accounts of \$122 on February 26, 2005 and \$121 on November 30, 2004	2,601	2,326
Inventories:		
Raw materials	1,361	1,354
Work-in process	1,378	1,346
	-----	-----
Total Inventories	2,739	2,700
Prepaid expenses and other current assets	55	90
Deferred income tax	528	528
	-----	-----
Total current assets	9,778	9,390
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	796
Machinery and equipment	5,266	5,200
Furniture and fixtures	481	479
	-----	-----
Total property, plant, and equipment	7,121	7,053
Less accumulated depreciation	(6,148)	(6,091)
	-----	-----
Net property, plant, and equipment	973	962
	-----	-----
Total assets	\$ 10,751	10,352
	=====	=====
LIABILITIES AND SHAREHOLDERS'		
EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 592	387
Accrued compensation	217	488
Other accrued liabilities	99	140
Deferred revenue	545	404
Income taxes payable	482	306
	-----	-----
Total current liabilities	1,935	1,725
	-----	-----
DEFERRED INCOME TAXES	72	72
SHAREHOLDERS' EQUITY		
Common stock, (\$.10 par value), authorized 10,000,000 shares, 3,078,315 issued 2,578,315 outstanding at February 26, 2005 and November 30, 2004	308	308
Paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)

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Retained earnings	8,801	8,612
	-----	-----
Total shareholders' equity	8,744	8,555
	-----	-----
Total liabilities and shareholders' equity	\$ 10,751	10,352
	=====	=====

These statements reflect all adjustments which, in the opinion of management, are necessary for fair statement of the results for the interim period.

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

	2/26/05	2/28/04
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 498	268
Adjustments to reconcile net income to:		
Cash from operating activities:		
Depreciation and amortization	57	54
Changes in current assets and liabilities:		
Accounts receivable	(275)	(243)
Inventories	(39)	(160)
Prepaid expenses and other current assets	35	16
Deferred revenue	141	185
Accounts payable	205	249
Accrued compensation	(271)	(50)
Other accrued liabilities	(41)	(70)
Income taxes payable	176	117
	-----	-----
Net cash provided by operating activities	486	366
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in investments	595	(589)
Additions to property, plant and equipment	(68)	(9)
	-----	-----
Net cash (used in) provided by investing activities	527	(598)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(309)	(129)
	-----	-----
Net cash (used in) financing activities	(309)	(129)
	-----	-----
Net change in cash and cash equivalents	704	(361)
Cash and Cash Equivalents at beginning of period	1,239	2,337

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Cash and Cash Equivalents at end of period	1,943	1,976
	=====	=====
Supplemental Cash Flow Disclosure		
Cash Paid For Income Taxes	\$ 125	47
	=====	=====

These statements reflect all adjustments, which, in the opinion of management, are necessary for fair statement of the results for the interim period.

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

Note 1

In the opinion of management, the unaudited consolidated financial statements include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position as of February 26, 2005 and the cash flows and the results of operations for the three months ended February 26, 2005. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2004. 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Note 3

On December 29, 2004, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.12 per share dividend to all shareholders of record on January 25, 2005. The dividend was paid to shareholders on February 8, 2005.

On January 8, 2004, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of \$0.05 per share for shareholders of record as of January 30, 2004. This dividend was paid to the Company's shareholders on February 13, 2004.

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Note 4

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of February 26, 2005 there were 500,000 options available to be granted. No options have been granted to date.

Note 5

During fiscal 2004 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 at least 1:1, maintain a tangible net worth of \$6,250,000 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

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 months ended February 26, 2005 and February 28, 2004, the Company had no dilutive potential common stock.

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Note 7

Effective May 1, 2004, the Company and Ms. Wood, Chief Executive Officer and President of the Company entered into a three (3) year employment agreement at a base salary of \$180,000 per annum.

Effective February 1, 2004, the Company and Mr. King, Chief Operating Officer and Vice President of the Company entered into a two (2) year employment agreement at a base salary of \$150,000 per annum.

Effective February 1, 2004, the Company and Mr. Cefalu, Chief Financial Officer and Vice President of the Company entered into a two (2) year employment agreement at a base salary of \$82,000 per annum.

Note 8

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.

MICROPAC INDUSTRIES, INC.
(Unaudited)

ITEM 2 - MANAGEMENT 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.

Results of Operations

	Three months ended	
	2/26/2005	2/28/2004
	-----	-----
NET SALES	100.00%	100.00%
COST AND EXPENSES		
Cost of sales	61.50%	68.30%
Research and development	2.70%	1.20%
Selling, general and administrative	17.50%	18.30%
	-----	-----
Total cost and expenses	81.70%	87.80%
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	18.30%	12.20%
Interest income	0.30%	0.10%
	-----	-----
INCOME BEFORE TAXES	18.60%	12.30%
Provision for taxes	7.10%	4.70%
	-----	-----

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NET INCOME

11.50%

7.60%

Sales for the first quarter ended February 26, 2005 totaled \$4,313,000. Sales for the first quarter increased 22.8% or \$803,000 above sales for the same period of 2004, based on an improved shippable backlog. The increase in sales was due to higher demand for certain industrial products sold to customers in the semiconductor market, and increased requirements for some of the Company's standard optoelectronic and solid state relay products for military/aerospace and space programs.

Cost of sales for the first quarter 2005 versus 2004 totaled 61.5% and 68.3% of net sales. Cost of sales dollars increased \$255,000 in the first quarter of 2005, compared to 2004 due to increased volume, offset partially by lower material cost associated with product mix changes and lower overhead expenses as a percent of sales in the first quarter, as a result of stable indirect costs on higher sales volume. It is reasonable to expect that the Company's overhead expenses will increase during the balance of the year, based on plans for additional staffing and product mix of the Company's backlog.

Selling, general and administrative expenses for the first quarter of 2005 totaled 17.5%, compared to 18.3% for the same period in 2004. Selling, general and administrative expenses increased \$116,000 in the first quarter of 2005, compared to 2004 attributable to higher selling expense associated with the increase in sales.

Net income in the first quarter of 2005 totaled \$498,000, compared to \$268,000 for the comparable period in 2004. Net income per share totaled \$.19 and \$.10 for the comparable three months of 2005 and 2004, respectively. The increase in net income is attributable to higher sales and lower operating and general and administrative costs as a percent of sales.

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New orders for the first quarter of 2005 totaled \$3,946,000 compared to \$4,941,000 for the comparable period of 2004. The decrease is attributable to reduced requirements for custom, build to print microcircuits from an industrial customer engaged in semiconductor equipment manufacturing. The decreased demand for these products is part of an inventory reduction program by the customer which is expected to continue into second half of 2005. A decrease in orders for solid state relays and power controllers for the space markets, compared to the first quarter of 2004, further contributed to the lower bookings in the current quarter.

Backlog totaled \$8,933,000 on February 26, 2005 compared to \$5,229,000 as of February 28, 2004. The majority of the backlog is shippable in the next twelve (12) months.

Total assets increased \$399,000 to \$10,751,000 as of February 26, 2005 from \$10,352,000 as of November 30, 2004 with an increase in cash and short-term investments of \$109,000, accounts receivable increase of \$275,000, an increase in net property, plant, and equipment of \$11,000 and a decrease in prepaid expenses of \$35,000.

Inventories totaled \$2,739,000 at the end of the first quarter 2005 compared to \$2,700,000 on November 30, 2004, an increase of \$39,000. Raw materials inventories including supplies increased \$7,000 since November 30, 2004, while work-in-process inventories increased \$32,000. The increase in inventory is consistent with the current business level.

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Current liabilities totaled \$1,935,000 on February 26, 2005 representing an increase of \$210,000 from November 30, 2004; primarily associated with an increase in accounts payable of \$205,000 due to higher material purchases; an increase of \$176,000 in income taxes payable, a decrease in other accrued liabilities of \$41,000, an increase in deferred revenue of \$141,000 for advance payments from customers. Accrued compensation decreased \$271,000 attributable to vacation taken by employees during plant shutdown in December and the payment of bonuses to the Company's employees

Shareholders' equity increased \$189,000 in the first three months of 2005 with a net income of \$498,000 offset by the dividend payment of \$309,000. Earnings per share for the three month period totaled \$.19 per share.

Liquidity and Capital Resources

Cash and short-term investments as of February 26, 2005 totaled \$3,855,000 compared to \$3,746,000 on November 30, 2004 an increase of \$109,000. The increase in cash and short-term investments is attributable to \$486,000 net cash provided by operations, offset by the payment of a cash dividend of \$309,000 and the investment of \$68,000 in equipment.

Cash flows from operating activities for the quarter ending February 26, 2005 were \$486,000 compared to \$366,000 for the quarter ending February 28, 2004.

A special cash dividend of \$309,000 was paid on February 8, 2005 to all shareholders of record on January 30, 2005.

During fiscal 2004 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 at least 1:1, maintain a tangible net worth of \$6,250,000 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 first quarter totaled \$3,946,000 compared to \$4,941,000 for the comparable period of 2004. The decrease in new orders in the first quarter is attributable to lower funding releases on military and space programs compared to the same period of 2004, and reduced requirements from a semiconductor equipment manufacturing customer. Backlog totaled \$8,933,000 on February 26, 2005 compared to \$5,229,000 as of February 28, 2004 and \$9,292,000 on November 30, 2004 with a significant amount of the backlog expected to ship in fiscal 2005. The backlog represents a good mix of all the Company's products and technologies including standard and custom microelectronic and optoelectronic components and assemblies, along with contract electronic manufacturing services and includes a wide range of products sold to the industrial, medical, military, aerospace and space markets. Approximately 66% of the Company's backlog is for the military/aerospace market; 19% is for space applications and 15% is for industrial and medical applications.

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Based on the current backlog, sales in the second quarter are expected to increase over first quarter 2005, and second quarter 2004. While new orders are expected to increase in the second quarter, compared to the first quarter, we do not expect to match the results of the second quarter of 2004, based on the issues discussed above.

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-QSB 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 utilizes silicon photo transistors and light emitting diode components. Fabrication efforts sometimes may not result in the 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 \$1,900,000 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. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of February 26, 2005, the Company carried out an evaluation, under the supervision and with participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's quarterly SEC filings.

(b) Changes in internal controls.

Not applicable

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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ITEM 2. CHANGES IN SECURITIES

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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(b) Form 8-K

On December 29, 2004, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.12 per share dividend to all shareholders of record on January 25, 2005. This dividend was paid to shareholders on February 8, 2005.

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.

April 12, 2005

Date

/s/ Connie Wood

Connie Wood
Chief Executive Officer

April 12, 2005

Date

/s/ Patrick Cefalu

Patrick Cefalu
Chief Financial Officer