MICROPAC INDUSTRIES INC
Form 10QSB
October 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 QSB

OMB Approval
OMB Number XXXX-XXXX
Expires Approval Pending
Estimated Average Burden Hours Per Response 1.0

Quarterly Report Pursuant to Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

for the Quarter Ended August 30, 2008

For the Transition Period from__________ to __________
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

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 August 30, 2008, 2,578,315 shares of Common Stock, $.10 par value were outstanding.

MICROPAC INDUSTRIES, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

	For three months ended		Year-to-date	
	08/30/08	08/25/07	08/30/08	08/2
NET SALES	$ 5,321	$ 4,536	$ 14,103	$
COST AND EXPENSES:				
Cost of goods sold	(3,396)	(3,038)	(9,498)	
Research and development	(110)	(36)	(327)	
Selling, general & administrative expenses	(872)	(775)	(2,466)	
Total cost and expenses	(4,378)	(3,849)	(12,291)	
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	943	687	1,812	
Interest income	35	44	129	
INCOME BEFORE TAXES	$ 978	$ 731	$ 1,941	$
Provision for taxes	(330)	(278)	(677)	
NET INCOME	$ 648	$ 453	$ 1,264	$
NET INCOME PER SHARE, BASIC AND DILUTED	$ 0.25	$ 0.18	$ 0.49	$
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	2,

See accompanying notes to financial statements.

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 BALANCE SHEETS
(Dollars in thousands)

ASSETS

CURRENT ASSETS	(Unaudited) 8/30/08	11/30/07
Cash and cash equivalents	$ 5,312	$ 4,394
Short term investments	400	2,021
Receivables, net of allowance for doubtful accounts of $89 on August 30, 2008 and $89 on November 30, 2007	3,139	2,415
Inventories:		
Raw materials	2,439	1,588
Work-in process	2,313	2,455
Total inventories	4,752	4,043
Prepaid expenses and other current assets	97	69
Deferred income tax	659	659
Total current assets	14,359	13,601
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	796
Machinery and equipment	6,422	6,119
Furniture and fixtures	596	584
Total property, plant, and equipment	8,392	8,077
Less accumulated depreciation	(7,007)	(6,843)
Net property, plant, and equipment	1,385	1,234
Total assets	$ 15,744	$ 14,835

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 822	$ 608
Accrued compensation	503	544
Other accrued liabilities	191	194
Deferred revenue	147	323
Income taxes payable	142	235
Total current liabilities	1,805	1,904
DEFERRED INCOME TAXES	116	116

SHAREHOLDERS' EQUITY		
Common stock, ($.10 par value), authorized 10,000,000 shares, 3,078,315 issued 2,578,315 outstanding at August 30, 2008 and November 30, 2007	308	308
Paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	13,880	12,872
Total shareholders' equity	13,823	12,815
Total liabilities and shareholders' equity	$ 15,744	$ 14,835

See accompanying notes to financial statements.

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

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

	Nine months ended 08/30/08	Nine months ended 08/25/07
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,264	$ 1,110
Adjustments to reconcile net income to cash from operating activities:		
Depreciation and amortization	190	198
Gain on sale of equipment	(2)	(1)
Changes in current assets and liabilities:		
Increase in accounts receivable	(724)	(93)
(Increase) decrease inventories	(709)	315
Increase in prepaid expenses and other current assets	(28)	(7)
Increase (decrease) in accounts payable	214	(16)
Decrease in accrued compensation	(41)	(44)
(Decrease) increase in income taxes, payable and deferred	(93)	148
(Decrease) increase in other accrued liabilities and deferred revenues	(179)	2
Net cash provided by (used in) operating activities	(108)	1,612
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in short term investments	1,621	(814)
Proceeds from disposal of equipment	9	7

Additions to property, plant and equipment	(346)	(250)
Net cash provided by (used in) investing activities	1,284	(1,057)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
Net cash used in financing activities	(258)	(258)
Net change in cash and cash equivalents	918	297
Cash and cash equivalents at beginning of period	4,394	2,558
Cash and cash equivalents at end of period	$ 5,312	$ 2,855
Supplemental Cash Flow Disclosure:		
Cash paid for income taxes	$ 805	$ 532

See accompanying notes to financial statements.

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 CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1

In the opinion of management, the unaudited condensed financial statements include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position as of August 30, 2008, the cash flows for the nine months ended August 30, 2008 and August 25, 2007, and the results of operations for the three months and nine months ended August 30, 2008 and August 25, 2007. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2007. 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 22, 2006, the Board of Directors of Micropac Industries, Inc. approved the payment of a $.10 per share dividend to all shareholders of record on January 26, 2007. The dividend payment was paid to shareholders on February 9, 2007.

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 on March 7, 2008.

Note 4

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of August 30, 2008 there were 500,000 options available to be granted. No options have been granted to date.

Note 5

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 tangible net worth of $10,000,000 plus 75% of future net income, and maintain 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.

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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 and nine months ended August 30, 2008 and August 25, 2007, the Company had no dilutive potential common stock.

Note 7

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'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.

Results of Operations

	Three months ended		Year to Date	
	8/30/2008	8/25/2007	8/30/2008	8/25/2007
NET SALES	100.0%	100.0%	100.0%	100.0%
COST AND EXPENSES:				
Cost of Goods Sold	63.8%	67.0%	67.3%	68.0%
Research and development	2.1%	0.8%	2.3%	1.7%
Selling, general & administrative expenses	16.4%	17.1%	17.5%	17.8%
Total cost and expenses	82.3%	84.9%	87.1%	87.5%
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	17.7%	15.1%	12.9%	12.5%
Interest income	.7%	1.0%	.9%	1.0%
INCOME BEFORE TAXES	18.4%	16.1%	13.8%	13.5%
Provision for taxes	6.2%	6.1%	4.8%	5.1%

NET INCOME	12.2%	10.0%	9.0%	8.4%

Sales for the third quarter and nine months ended August 30, 2008 totaled $5,321,000 and $14,103,000, respectively. Sales for the third quarter increased 17.3% or $785,000 above sales for the same period of 2007, while sales for the first nine months of 2008 increased 6.6% or $869,000 above the first nine months of 2007. The sales increase was associated with higher sales of space level optocouplers and solid state power controllers. Sales were 16% in the commercial market, 62% in the military market, and 22% in the space market for the nine months ending August 30, 2008.

Cost of goods sold for the third quarter 2008 versus 2007 totaled 63.8% and 67.0% of net sales, respectively, while cost of goods sold for the nine months of the comparable period totaled 67.3% and 68.0%, respectively, an increase of 0.7%. While sales increased 17.3%, cost of goods sold only increased 11.8%. In actual dollars, cost of goods sold increased $358,000. Material and labor cost increased with the higher sales, however overhead cost remained stable for the third quarter of 2008.

Selling, general and administrative expenses for the third quarter and first nine months of 2008 totaled 16.4% and 17.5% of net sales, respectively, compared to 17.1% and 17.8% for the same period in 2007. In actual dollars expensed, selling, general and administrative expenses increased $97,000 in the third quarter of 2008, compared to 2007, and increased $107,000 for the first nine months of 2008, versus 2007.

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Net income for the third quarter and year to date 2008 totaled $648,000 and $1,264,000, respectively, compared to $453,000 and $1,110,000 for the comparable periods in 2007. Net income increased with a higher level of sales and stable overhead cost. Net income per share totaled $.49 and $.43 for the comparable nine months of 2008 and 2007, respectively.

Total assets increased $909,000 to $15,744,000 as of August 30, 2008 from $14,835,000 as of November 30, 2007 with an increase in cash of $918,000, short term investment decrease of $1,621,000, raw material increase of $851,000, work-in- process decrease of $142,000, accounts receivable increase of $724,000, increase in prepaid expense of $28,000, and an increase in net property, plant, and equipment of $151,000.

Accounts receivable, net totaled $3,139,000 as of August 30, 2008 and represents an increase of $724,000 since November 30, 2007 with the increase in sales in the 3rd quarter of 2008.

Inventories totaled $4,752,000 at the end of the third quarter 2008 compared to $4,043,000 on November 30, 2007, an increase of $709,000. Raw materials inventories increased $851,000 since November 30, 2007, while work-in-process inventories decreased $142,000. The majority of the increase in inventories is associated with the purchase of space level die for current customer requirements on the backlog.

Liabilities totaled $1,921,000 on August 30, 2008 representing a decrease of $99,000 from November 30, 2007; primarily associated with an increase in accounts payable of $214,000, a decrease of $41,000 in accrued compensation, a decrease of $93,000 in provision for income taxes, a decrease in deferred revenue of $176,000, and a decrease of $3,000 in other accrued liabilities.

Shareholders' equity increased $1,008,000 in the first nine months of 2008. Earnings per share for the nine month period totaled $.49 per share.

Liquidity and Capital Resources

Cash and short-term investments as of August 30, 2008 totaled $5,712,000 compared to $6,415,000 on November 30, 2007, a decrease of $703,000. Cash used from operations was $108,000 and proceeds from the sale of equipment of $9,000 for the first nine months offset by a cash dividend of $258,000, and $346,000 invested in equipment, and $1,621,000 in cash from short term investments.

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

New orders for the third quarter and year-to-date 2008 totaled $6,084,000 and $17,954,000, respectively, compared to $4,037,000 and $12,936,000 for the comparable periods of 2007 or an increase of 51.0% and 39.0% respectively. The increase in new orders is primarily attributable to increased orders for space level solid state relays and solid state power controllers.

Backlog totaled $11,755,000 on August 30, 2008 compared to $9,235,000 as of August 25, 2007 and $7,918,000 on November 30, 2007. 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 6% in the commercial market, 50% in the military market, and 44% in the space market.

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.

The Company produces silicon phototransistors and light emitting diode die for use in certain military, standard and custom products. Fabrication efforts sometimes may not be successful, 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 $1,874,000 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.

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 30, 2008 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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 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

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.

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 14, 2008	/s/ Mark King
Date	Mark King Chief Executive Officer
October 14, 2008	/s/ Patrick Cefalu
Date	Patrick Cefalu Chief Financial Officer