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MICROPAC INDUSTRIES INC
Form 10QSB
April 15, 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 March 1, 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 March 1, 2008, 2,578,315 shares of Common Stock, \$.10 par value were outstanding.

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MICROPAC INDUSTRIES, INC.

FORM 10-QSB

MARCH 1, 2008

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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 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

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SIGNATURES

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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	
	3/01/08	2/24/07
	-----	-----
NET SALES	\$ 4,185	\$ 4,251
 COST AND EXPENSES:		
Cost of goods sold	(2,913)	(2,947)
Research and development	(94)	(100)
Selling, general & administrative expenses	(780)	(726)
	-----	-----
Total cost and expenses	(3,787)	(3,773)
 OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	398	478
 Interest income	69	46
	-----	-----
INCOME BEFORE TAXES	467	524
 Provision for taxes	(177)	(199)
	-----	-----
NET INCOME	\$ 290	\$ 325
	=====	=====
NET INCOME PER SHARE, BASIC AND DILUTED	\$ 0.11	\$ 0.13

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DIVIDENDS PER SHARE	\$	0.10	\$	0.10
WEIGHTED AVERAGE NUMBER OF SHARES, Basic and diluted		2,578,315		2,578,315

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) 3/01/08	11/30/07
	-----	-----
Cash and cash equivalents	\$ 4,774	\$ 4,394
Short term investments	1,521	2,021
Receivables, net of allowance for doubtful accounts of \$89 on March 1, 2008 and \$89 on November 30, 2007	2,370	2,415
Inventories:		
Raw materials	1,579	1,588
Work-in process	2,476	2,455
	-----	-----
Total Inventories	4,055	4,043
Prepaid expenses and other current assets	32	69
Deferred income tax	659	659
	-----	-----
Total current assets	13,411	13,601
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	796
Machinery and equipment	6,182	6,119
Furniture and fixtures	590	584
	-----	-----
Total property, plant, and equipment	8,146	8,077
Less accumulated depreciation	(6,908)	(6,843)
	-----	-----
Net property, plant, and equipment	1,238	1,234
	-----	-----
Total assets	\$ 14,649	\$ 14,835

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	=====	=====
LIABILITIES AND SHAREHOLDERS'		
EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 682	\$ 608
Accrued compensation	308	544
Other accrued liabilities	135	194
Deferred revenue	268	323
Income taxes payable	293	235
	-----	-----
Total current liabilities	1,686	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 March 1, 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	12,904	12,872
	-----	-----
Total shareholders' equity	12,847	12,815
	-----	-----
Total liabilities and shareholders' equity	\$ 14,649	\$ 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)

For three months ended
3/01/08 2/24/07
----- -----

CASH FLOWS FROM OPERATING ACTIVITIES:

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Net Income	\$ 290	\$ 325
Adjustments to reconcile net income to:		
Cash from operating activities:		
Depreciation and amortization	65	66
Changes in current assets and liabilities:		
Accounts receivable	45	(660)
Inventories	(12)	308
Prepaid expenses and other current assets	37	32
Deferred revenue	(55)	51
Accounts payable	74	(78)
Accrued compensation	(236)	(183)
Other accrued liabilities	(59)	(16)
Income taxes payable	58	198
	-----	-----
Net cash provided by operating activities	207	43
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Changes in investments	500	(92)
Additions to property, plant and equipment	(69)	(15)
	-----	-----
Net cash provided by (used in) investing activities	431	(107)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
	-----	-----
Net cash used in financing activities	(258)	(258)
	-----	-----
Net change in cash and cash equivalents	380	(322)
Cash and Cash Equivalents at beginning of period	4,394	2,558
	-----	-----
Cash and Cash Equivalents at end of period	\$ 4,774	\$ 2,236
	=====	=====
Supplemental Cash Flow Disclosure		
Cash Paid For Income Taxes	\$ 123	\$ 0
	=====	=====

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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NOTES TO FINANCIAL STATEMENTS (Unaudited)

Note 1

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 March 1, 2008, the cash flows for the three months ended March 1, 2008 and February 24, 2007, and the results of operations for the three months ended March 1, 2008 and February 24, 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 March 1, 2008 there were 500,000 options available to be granted. No options have been granted to date.

Note 5

On June 1, 2006 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

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\$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 March 1, 2008 and February 24, 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.

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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.

Results of Operations

	Three months ended	
	3/01/2008	2/24/2007
	-----	-----
NET SALES	100.0%	100.0%
COST AND EXPENSES:		
Cost of goods sold	69.6%	69.3%
Research and development	2.3%	2.4%
Selling, general & administrative expenses	18.6%	17.1%
	-----	-----
Total cost and expenses	90.5%	88.8%

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OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	9.5%	11.2%
Interest income	1.6%	1.0%
INCOME BEFORE TAXES	11.1%	12.3%
Provision for taxes	4.2%	4.7%
NET INCOME	6.9%	7.6%

Sales for the first quarter ended March 1, 2008 totaled \$4,185,000. Sales for the first quarter decreased 1.6% or \$66,000 below sales for the same period of 2007. Sales were 15% in the commercial market, 62% in the military market, and 23% in the space market compared to 22% in the commercial market, 57% in the military market, and 21% in the space market for the same period of 2007.

Cost of goods sold for the first quarter 2008 versus 2007 totaled 69.6 and 69.3% of net sales. Cost of goods sold dollars decreased \$34,000 in the first quarter of 2008, compared to 2007.

Research and development cost decreased \$6,000 for the first quarter of 2008 compared to the same period of 2007.

Selling, general and administrative expenses for the first quarter of 2008 totaled 18.6%, compared to 17.1% for the same period in 2007. Selling, general and administrative expenses increased \$54,000 in the first quarter of 2008, compared to 2007.

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Interest income increased \$23,000 for the first quarter of 2008 compared to the same period in 2007. The increase is attributable to improved yields on the company's short term investments and an increase in short term investments of \$500,000.

Provisions for taxes decreased \$22,000 for the first quarter of 2008 compared to the same period in 2007 with lower net income. The estimated effective tax rate was 38% for both periods.

Net income in the first quarter of 2008 totaled \$290,000, compared to \$325,000 for the comparable period in 2007. Net income per share totaled \$.11 and \$.13 for the comparable three months of 2008 and 2007, respectively

Total assets decreased \$186,000 to \$14,649,000 as of March 1, 2008 from \$14,835,000 as of November 30, 2007.

Cash and short-term investments as of March 1, 2008 totaled \$6,295,000 compared to \$6,415,000 on November 30, 2007, a decrease of \$120,000.

Account receivables totaled \$2,370,000 as of March 1, 2008 from \$2,415,000 as of November 30, 2007, a decrease of \$45,000.

Inventories totaled \$4,055,000 at the end of the first quarter 2008 compared to \$4,043,000 on November 30, 2007, an increase of \$12,000. Raw materials

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inventories including supplies decreased \$9,000 since November 30, 2007, while work-in process inventories increased \$21,000.

Current liabilities totaled \$1,686,000 on March 1, 2008 representing a decrease of \$218,000 from November 30, 2007 with a decrease in accrued compensation of \$236,000 related to the payment of a cash bonus to all employees.

Shareholders' equity increased \$32,000 in the first three months of 2008 with a net income of \$290,000 offset by the dividend payment of \$258,000. Earnings per share for the three month period totaled \$.11 per share.

Liquidity and Capital Resources

Cash and short-term investments as of March 1, 2008 totaled \$6,295,000 compared to \$6,415,000 on November 30, 2007, a decrease of \$120,000. The decrease in cash and short-term investments is attributable to \$207,000 net cash provided by operations, offset by the payment of a cash dividend of \$258,000 and the investment of \$69,000 in equipment.

Cash flows from operating activities for the quarter ending March 1, 2008 were \$207,000 compared to \$43,000 for the quarter ending February 24, 2007.

A special cash dividend of \$258,000 was paid on February 8, 2008 to all shareholders of record on January 25, 2007.

On June 1, 2006 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 \$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 of 2008 totaled \$4,618,000 compared to \$4,000,000 for the comparable period of 2007.

Backlog totaled \$8,351,000 on March 1, 2008 compared to \$9,278,000 as of February 24, 2007. The decrease is primarily attributable to lower orders on industrial semiconductor assemblies and solid state power controllers. The majority of the backlog is shippable in the next twelve (12) months.

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

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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 cyclicalities 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 \$1,400,000 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 March 1, 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

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None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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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 will continue to serve in such positions until the Company's next Annual Shareholder Meeting scheduled for 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.

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April 14, 2008

Date

/s/ Mark King

Mark King
Chief Executive Officer

April 14, 2008

Date

/s/ Patrick Cefalu

Patrick Cefalu
Chief Financial Officer