

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

MICROPAC INDUSTRIES INC
Form 10QSB
April 13, 2004

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 Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934
for the Quarter Ended February 28, 2004

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

At February 28, 2004 there were 3,078,315 shares issued and 2,578,315 shares of registrant's common stock outstanding. The aggregate market value of Common Stock could not be determined since there is no established public trading market for the Company's Common Stock.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

1

MICROPAC INDUSTRIES, INC.

FORM 10-QSB

FEBRUARY 28, 2004

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Condensed Statements of Operations for the three months ended February 28, 2004 and March 1, 2003
Condensed Balance Sheets as of February 28, 2004 and November 30, 2003
Condensed Statements of Cash Flows for the three months ended February 28, 2004 and March 1, 2003
Notes to Financial Statements

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

ITEM 3- CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

ITEM 2 - CHANGES IN SECURITIES

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

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

ITEM 5 - OTHER INFORMATION

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 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

PART I - FINANCIAL INFORMATION

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	
	2/28/04	3/01/03
	-----	-----
NET SALES	\$ 3,510	\$ 3,086
COST AND EXPENSES:		
Cost of Goods Sold	(2,396)	(2,173)
Research and development	(43)	(86)
Selling, general & administrative expenses	(642)	(734)
	-----	-----
Total cost and expenses	\$ (3,081)	\$ (2,993)
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	429	93
Interest income	3	17
	-----	-----
INCOME BEFORE TAXES	\$ 432	\$ 110
Provision for taxes	(164)	(41)
	-----	-----
NET INCOME	\$ 268	\$ 69
	=====	=====
NET INCOME PER SHARE, BASIC AND DILUTED	\$ 0.10	\$ 0.02

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

DIVIDENDS PER SHARE	\$ 0.05	\$ 0.10
WEIGHTED AVERAGE NUMBER OF SHARES, Basic and diluted	2,578,315	3,127,151

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

3

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

ASSETS

CURRENT ASSETS	2/28/04	11/30/03
	-----	-----
Cash and cash equivalents	\$ 1,976	\$ 2,337
Short term investments	1,401	812
Receivables, net of allowance for doubtful accounts of \$122 on February 28, 2004 and \$89 on November 30, 2003	2,120	1,877
Inventories:		
Raw materials	874	692
Work-in process	1,075	1,097
	-----	-----
Total Inventories	1,949	1,789
Prepaid expenses and other current assets	55	71
Deferred income tax	386	386
	-----	-----
Total current assets	\$ 7,887	\$ 7,272
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	797
Machinery and equipment	5,029	5,027
Furniture and fixtures	479	489
	-----	-----
Total property, plant, and equipment	\$ 6,882	\$ 6,891
Less accumulated depreciation	(5,925)	(5,889)
	-----	-----
Net property, plant, and equipment	957	1,002
	-----	-----
Total assets	\$ 8,844	\$ 8,274
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 557	\$ 308
Accrued compensation	189	239

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

Accrued professional fees	--	23
Other accrued liabilities	387	249
Income taxes payable	227	110
	-----	-----
Total current liabilities	1,360	929
	-----	-----
 DEFERRED INCOME TAXES	 69	 69
 SHAREHOLDERS' EQUITY		
Common stock, (\$.10 par value), authorized 10,000,000 shares, 3,078,315 issued 2,578,315 outstanding at February 28, 2004 and November 30, 2003	308	308
Paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	7,472	7,333
	-----	-----
Total shareholders' equity	\$ 7,415	\$ 7,276
	-----	-----
Total liabilities and shareholders' equity	\$ 8,844	\$ 8,274
	=====	=====

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

4

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

	2/28/04	3/01/03
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 268	\$ 68
Adjustments to reconcile net income to:		
Cash from operating activities:		
Depreciation and amortization	54	56
Changes in current assets and liabilities:		
Accounts receivable	(243)	143
Inventories	(160)	130
Prepaid expenses and other current assets	16	29
Accounts payable	249	(77)
Accrued Compensation	(50)	(40)
Accrued liabilities	115	(156)
Income taxes payable	117	7
	-----	-----
Net cash provided by operating activities	\$ 366	\$ 160
 CASH FLOWS FROM INVESTING ACTIVITIES:		

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

Changes in investments	\$ (589)	\$ (203)
Additions to property, plant and equipment	(9)	(40)
	-----	-----
Net cash used in investing activities	(598)	(243)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(129)	(313)
	-----	-----
Net cash used in financing activities	(129)	(313)
	-----	-----
Net change in cash and cash equivalents	(361)	(396)
Cash and Cash Equivalents at beginning of period	2,337	1,296
	-----	-----
Cash and Cash Equivalents at end of period	\$ 1,976	\$ 900
	=====	=====
Supplemental Cash Flow Disclosure		
Cash Paid For Income Taxes	\$ 47	\$ 21
	=====	=====

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

5

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 28, 2004 and the cash flows and the results of operations for the three months ended February 28, 2004 and March 1, 2003. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2003. The results of operations for the interim periods presented may not be indicative of total results for the full year. 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

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

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 January 28, 2003, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.10 per share dividend to all shareholders of record on February 10, 2003. The dividend payment was paid to shareholders on February 28, 2003.

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.

Note 4

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of February 28, 2004 there were 500,000 options available to be granted. No options have been granted to date.

Note 5

During fiscal 2003, 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 and management personnel requirements. The Company has not borrowed against the line of credit to date.

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 28, 2004 and March 1, 2003, the Company had no dilutive potential common stock.

Note 7

Effective May 1, 2002, the Company and Ms. Wood, Chief Executive Officer and President of the Company entered into a two (2) year employment agreement at a base salary of \$156,000 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.

Per the employment agreements, all officers received a salary increase effective February 17, 2004. Ms. Wood's base salary was increased to \$161,500, Mr. King's base salary was increased to \$155,250, and Mr. Cefalu's base salary was increased to \$85,500.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

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.

Note 9

Effective May 13, 2002, the Company's Board of Directors approved the formation of an audit committee composed of the four (4) members of the Board. It is possible that three members of the audit committee, Messrs. Hempel, Wood and Murphey, may resign from the committee if future Securities and Exchange Commission rules establish a criteria that such individuals are not independent due to their relationships with the Company.

7

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

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

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	
	2/28/2004	3/01/2003
	-----	-----
NET SALES	100.00%	100.00%
COST AND EXPENSES		
Cost of sales	68.30%	70.40%
Research and development	1.20%	2.80%
Selling, general and administrative	18.30%	23.80%
	-----	-----
Total cost and expenses	87.80%	97.00%
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	12.20%	3.00%
Interest income	0.10%	0.60%
	-----	-----
INCOME BEFORE TAXES	12.30%	3.50%
Provision for taxes	4.70%	1.30%
	-----	-----
NET INCOME	7.60%	2.20%

Sales for the first quarter ended February 28, 2004 totaled \$3,510,000. Sales for the first quarter increased 13.7% or \$424,000 above sales for the same period of 2003. The increase in sales was due to higher demand for certain industrial products sold to customers in the semiconductor market, and solid state relay products.

Cost of sales for the first quarters 2004 versus 2003 totaled 68.3% and 70.4% of net sales. Cost of sales dollars increased \$233,000 in the first quarter of 2004, compared to 2003. The decrease in cost of goods sold as a percentage of sales resulted from lower material cost associated with improved yields and lower overhead expenses during the first quarter, as a result of continued cost controls.

Selling, general and administrative expenses for the first quarter of 2004 totaled 18.3%, compared to 23.8% for the same period in 2003. In actual dollars expensed, selling, general and administrative expenses decreased \$92,000 in the first quarter of 2004, compared to 2003 attributable to lower general and administrative salaries.

Net income in the first quarter of 2004 totaled \$268,000, compared to \$69,000 for the comparable period in 2003. Net income per share totaled \$.10 and \$.02 for the comparable three months of 2004 and 2003, respectively. The increase in net income is attributable to higher sales and lower operating and general and administrative costs.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

8

New orders for the first quarter of 2004 totaled \$4,941,000 compared to \$1,884,000 for the comparable period of 2003.

Backlog totaled \$5,229,000 on February 28, 2004 compared to \$3,869,000 as of March 1, 2003. The majority of the backlog is shippable in the next twelve (12) months.

Total assets increased \$570,000 to \$8,844,000 as of February 28, 2004 from \$8,274,000 as of November 30, 2003 with an increase in cash and short-term investments of \$228,000, inventory increase of \$161,000, accounts receivable increase of \$243,000 and a decrease in net property, plant, and equipment of \$45,000.

Cash and short term investments totaled \$3,337,000 an increase of \$228,000.

Accounts receivable, net totaled \$2,120,000 as of February 28, 2004 representing an increase of \$243,000 since November 30, 2003, due to the higher sales level.

Inventories totaled \$1,950,000 at the end of the first quarter 2004 compared to \$1,789,000 on November 30, 2003, an increase of \$161,000. Raw materials inventories increased \$182,000 since November 30, 2003, while work-in-process inventories decreased \$22,000. The increase in inventory is consistent with the current business level.

Current liabilities totaled \$1,360,000 on February 28, 2004 representing an increase of \$431,000 from November 30, 2003; primarily associated with an increase in accounts payable of \$249,000 due to higher material purchases; an increase of \$117,000 in income taxes payable, an increase in other accrued liabilities of \$138,000 based on reserves for advance payments from customers. Accrued compensation decreased \$50,000 attributable to vacation taken by employees during plant shutdown in December, and accrued fees decreased \$23,000 with the final payment for audit services.

Shareholders' equity increased \$139,000 in the first three months of 2004. Earnings per share for the three month period totaled \$.10 per share.

Liquidity and Capital Resources

Cash and short-term investments as of February 28, 2004 totaled \$3,337,000 compared to \$3,149,000 on November 30, 2003 an increase of \$228,000. The increase in cash and short-term investments is attributable to \$367,000 net cash provided by operations, offset by the payment of a cash dividend of \$129,000 and the retirement of \$10,000 in equipment.

As of February 28, 2004 cash flows from operating activities were \$367,000 compared to \$160,000 as of March 1, 2003.

A special cash dividend of \$129,000 was paid on February 13, 2004 to all shareholders of record.

During fiscal 2003 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 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.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

Outlook

New orders for the first quarter totaled \$4,941,000 compared to \$1,814,000 for the comparable period of 2003. The increase in new orders in the first quarter is attributable to funding releases on military and space programs, and stronger demand from our Customers in the semiconductor, medical and harsh environment (high-temp) markets. Backlog totaled \$5,229,000 on February 28, 2004 compared to \$3,869,000 as of March 1, 2003 and \$3,799,000 on November 30, 2003 with a significant amount of the backlog expected to ship in fiscal 2004. The backlog represents a good mix of all the Company's products and technologies.

Based on the current backlog, we expect sales in the second quarter to be slightly over first quarter sales, and substantially more than the second quarter of 2003.

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

9

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 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 28, 2004, 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.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

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 U. S. C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.

(b) Form 8-K

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.

10

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.

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10QSB

MICROPAC INDUSTRIES, INC.

April 12, 2004

Date

/s/ Connie Wood

Connie Wood
Chief Executive Officer

April 12, 2004

Date

/s/ Patrick Cefalu

Patrick Cefalu
Chief Financial Officer