MICROPAC INDUSTRIES INC
Form 10KSB
January 31, 2005

U. S. Securities and Exchange Commission
Washington, D. C. 20549

Form 10-KSB

(Mark One)

(X) ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)

For the fiscal year ended November 30, 2004

(_) TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from ________ to ________
Commission file number 0-5109

MICROPAC INDUSTRIES, INC.

DELAWARE	75-1225149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
905 E. WALNUT STREET GARLAND, TEXAS	75040 (Zip Code)

Issuer's telephone number (972) 272-3571

Securities to be registered under Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered

Securities to be registered under Section 12 (g) of the Act:

COMMON STOCK $.10 par value

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

There is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Revenues for its most recent fiscal year: $15,356,000

The aggregate market value of the voting stock held by non-affiliates computed by the average bid and asked prices of such stock, as of a specified date within the past 60 days, is not determined due to non-activity on the market over the last 5 years.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

The number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date was 2,578,315 as of November 30, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

Item 1. Business

INTRODUCTION

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 business was started in 1963 as a sole proprietorship. On March 3, 1969, the Company was incorporated under the name of "Micropac Industries, Inc." in the state of Delaware. The stock was publicly held by 559 shareholders on November 30, 2004.

PRODUCTS AND TECHNOLOGIES

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. Custom-designed components are estimated to account for approximately 50% of the Company's sales for the fiscal year ended November 30, 2004, and 52% in fiscal 2003; standard components are estimated to account for approximately 50% of the Company's sales for the fiscal year ended November 30, 2004, and 48% for fiscal 2003.

In 2004, the Company's investment in technology through research and development, which was expensed, totaled approximately $438,000 ($303,000 in 2003). The Company's research and development expenditures were directed primarily toward long-term specific customer requirements, some of which have future potential as Micropac proprietary products, and product development and improvement associated with the Company's space level and other high reliability programs.

The Company provides a one year warranty from the date of shipment to the original purchaser. The Company is obligated under this warranty to either replace or repair defective goods or refund the purchase price paid by the buyer.

SALES, MARKETING AND DISTRIBUTION

The Company's products are marketed throughout the United States and in Western Europe, through a direct technical sales staff, independent representatives and independent stocking distributors. Approximately 25% of the sales for fiscal year 2004 (17% in 2003) were to international customers. Sales to Western European customers are made by independent representatives under the coordination of the Company's office in Bremen, Germany. One major industrial customer has opened an operation in China and during 2004 moved a major part of their domestic operations to China. This customer accounted for 22% of international sales, and a contract manufacturer in China accounted for 41% of international sales.

CUSTOMERS

The Company's major customers include contractors to the United States government with fixed price contracts. Sales to these customers for Department of Defense (DOD) and National Aeronautics and Space Administration (NASA) contracts accounted for approximately 64% of the Company's fiscal net sales in 2004 compared to 62% in 2003.

During 2004, two customers accounted for 8% and 10% of the Company's sales compared to 11% and 7% for the year ended November 30, 2003.

BACKLOG

At November 30, 2004, the Company had a backlog of unfilled orders totaling approximately $9,292,000 compared to approximately $3,799,000 at November 30, 2003. The Company expects to complete and ship most of its November 30, 2004 backlog during fiscal 2005.

EMPLOYEES

At November 30, 2004, the Company had 121 full-time employees (compared to 112 at November 30, 2003), of which 28 were executive and managerial employees, 24 were engineers and quality-control personnel, 20 were clerical and administrative employees, and 49 were production personnel. None of the Company's employees were covered by collective bargaining agreements.

The Company is an Equal Opportunity Employer. It is the Company's policy to recruit, hire, train and promote personnel in all job classifications, without regard to race, religion, color, national origin, sex or age. Above and beyond non-discrimination, we are committed to an Affirmative Action Program, dedicated to the hiring, training, and advancement within the Company of minority group members, women and handicapped individuals.

RISK FACTORS

Pricing Pressures. The Company continues to experience pricing pressures from some of its original equipment manufacturer (OEM) customers. In some cases, the Company sells product under agreements with OEMs that require the Company, at regular intervals, to review the pricing structure for possible reduction in selling price for future orders. This requires the Company to improve its productivity and to request similar price reduction from its supplier chain. If one or both of the approaches by the Company does not succeed, product gross margins will decrease affecting the Company's net earnings.

Limited Insurance Coverage. The Company operates manufacturing facilities in Garland, Texas and Juarez, Mexico. These facilities use industrial machines and chemicals that could provide risks of personal injury and/or property damage. There is no assurance that accidents will not occur. If accidents do occur, the Company could be exposed to substantial liability. The Company maintains worker's compensation insurance and general liability insurance for protection of its employees and for protection of the Company's assets. In addition to the basic policies mentioned, the Company maintains an umbrella policy covering claims up to $10 million dollars. The Company's financial position could be materially affected by claims not covered or exceeding coverage currently carried by the Company.

Environmental Regulations. The Company is subject to governmental regulations pertaining to the use, storage, handling and disposal of hazardous substances used in connection with its manufacturing activities. Failure of the Company to control all activities dealing with hazardous chemicals could subject the Company to significant liabilities or could cause the Company to cease its manufacturing activities.

Product Liability. The use of the Company's products in commercial or government applications may subject the Company to product liability claims. Although the Company has not experienced any product liability claims, the sale of any product may provide risk of such claims. Product liability claims brought against the Company could have a material adverse effect on the Company's operating results and financial condition.

Component Shortages or Obsolescence. The Company relies on suppliers to deliver quality raw materials in a timely and cost effective manner. From time to time vendors do not deliver the product as needed due to manufacturing problems or possibly a decision not to furnish that product in the future. Such interruption of supply or price increases could have a material adverse effect on the Company.

Technological Changes. The Company's base products and technologies generally have long life cycles. The Company's products are primarily used in military, space or aerospace applications, which also have long life cycles. There can be no assurance that the Company will be able to define, develop and market new products and technologies on a timely and cost effective basis. Failure to respond to customer's requirements, and to competitors progress in technological changes could have a material adverse effect on the Company's business.

Changes in Government Policy. The Company could be adversely affected by changes in laws and regulations made by U.S. and non U.S. governments and agencies dealing with foreign shipments. Changes by regulatory agencies dealing with environmental issues could affect the cost of the Company's products and make it hard for a small company to be competitive with larger companies.

COMPETITION

The Company competes with two or more companies with respect to each of its major products. Some of these competitors are larger and have greater capital resources than the Company. Management believes the Company's competitive position is favorable; however, no assurance can be given that the Company can compete successfully in the future.

SUPPLY CHAIN

The parts and raw materials for the Company's products are generally available from more than one source. Except for certain optoelectronic products, the Company does not manufacture the basic parts or materials used in production of its products. From time to time, the Company has experienced difficulty in obtaining certain materials when needed. The Company's inability to secure materials for any reason could have adverse effects on the Company's ability to deliver products on a timely basis. The Company uses capacitors, active semiconductor devices (primarily in chip form), hermetic packages, ceramic substrates, resistor inks, conductor pastes, precious metals and other materials in its manufacturing operations.

Item 2. Properties

The Company occupies approximately 36,000 square feet of manufacturing, engineering and office space in Garland, Texas. The Company owns 31,200 square feet of that space and leases an additional 4,800 square feet. The Company considers its facilities adequate for its current level of operations.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to vote of the Company's security holders through the solicitation of proxies by the Company during the fourth quarter of the fiscal year ended November 30, 2004.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

On November 30, 2004, there were approximately 559 shareholders of record of the Company's common stock. No prices have been presented since there is no established public trading market for the Company's common stock. The stock of the Company is closely held; and, therefore, certain shareholders have the ability to significantly influence decisions.

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 payment will be paid to shareholders on or about February 8, 2005.

On January 8, 2004, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of $.05 per share to all shareholders of record on January 30, 2004. The dividend payment was paid to shareholders on February 13, 2004.

On August 27, 2003, the Company purchased 548,836 shares of the Company's common stock pursuant to the terms of an agreement dated February 5, 2001, between the Company and Nicholas Nadolsky, former Chairman of the Board and Chief Executive Officer ("Agreement"). The Agreement obligated the Company to purchase any shares of the Company's common stock owned by Mr. Nadolsky at the fair market value thereof (but in no event less than the book value of such shares) in the event of his death, permanent disability or termination of employment. Mr. Nadolsky's employment terminated on May 1, 2003. By letter dated August 15, 2003, Mr. Nadolsky requested that the Company purchase the 548,836 shares of the Company's common stock he owned pursuant to the requirements of the above agreement and agreed that the fair value of each share of his common stock was $2.68. The Company paid Mr. Nadolsky a total purchase price of $1,470,880. These shares were subsequently retired.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company currently has an existing line of credit with a Texas banking institution. The line of credit agreement provides the Company with up to $3,000,000 for normal operation of the Company. The Company has not, to date, used any of the available line of credit. The Company expects to continue to generate adequate amounts of cash to meet its liquidity needs from the sale of products and services and the collection thereof.

The Company realized $908,000 net in cash flows from operations in 2004. Cash influx came primarily from the combination of net income totaling $1,408,000; recovery of depreciation totaling $222,000, increase of accrued compensation of $249,000, increase in other accrued liabilities of $272,000, increase in accounts payable of $79,000, and an increase in tax liabilities of $196,000. Cash was used to increase inventory $911,000, accounts receivables increased by $449,000, deferred tax benefit increased $139,000 and an increase in prepaid expense of $19,000. Inventories increased due to the purchase of long lead items for shipments within the first half of 2005. Day's sales in accounts receivables totaled approximately 53.0 days as of November 30, 2004, compared to 52.0 days at November 30, 2003.

The Company used $182,000 in cash for investment in additional manufacturing equipment, computers and facility improvements in 2004 compared to $181,000 in 2003.

As of November 30, 2004, the Company had $1,239,000 in cash and cash equivalents and $2,507,000 in short term investments compared to $2,337,000 in cash and cash equivalents and $812,000 in short term investments on November 30, 2003.

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on January 25, 2005. The dividend payment will be paid to shareholders on or about February 8, 2005.

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Company management believes it will meet its 2005 capital requirements through the use of cash derived from operations for the year and/or usage of the Company's short-term investments. There were no significant outstanding commitments for equipment purchases or improvements at November 30, 2004.

Results of Operations 2004 vs. 2003

	Three Months Ended		Twelve Months Ended	
	11/30/04	11/30/03	11/30/04	11/30/03
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.1%	67.6%	65.0%	69.8%
R & D	5.3%	2.4%	2.9%	2.4%
S, G, & A	18.7%	17.4%	17.6%	20.7%
Total Cost & Exp	81.1%	87.4%	85.5%	92.9%
Operating Income	18.9%	12.6%	14.5%	7.1%
Interest Income	0.3%	0.3%	0.2%	0.4%
Income Before Income Taxes	19.2%	12.3%	14.7%	7.5%
Provision for taxes	7.2%	3.8%	5.6%	2.6%
Net Income	12.0%	8.5%	9.1%	4.9%

Sales in 2004 were approximately $15,356,000, an increase of 22.9% or $2,866,000 compared to 2003 sales. The increase in sales is primarily attributable to improved business conditions in the company's major market segments, combined with the introduction of new products. New orders for fiscal year 2004 totaled $20,946,000 compared to $11,191,000 for fiscal 2003. The increase in new orders is attributable to increased funding on certain military programs, combined with higher demand for some of the Company's standard products sold through distribution channels, and increased penetration in the medical and industrial markets. The Company's backlog as of November 30, 2004, was approximately $9,292,000, compared to approximately $3,799,000 on November 30, 2003.

Custom-designed components are estimated to account for approximately 50% of the Company's sales for the fiscal year ended November 30, 2004, and 52% in fiscal 2003; standard components are estimated to account for approximately 50% of the Company's sales for the fiscal year ended November 30, 2004, and 48% for fiscal 2003.

Approximately 25% of the sales for fiscal year 2004 (17% in 2003) were to international customers. Sales to Western European customers are made by independent representatives under the coordination of the Company's office in

Bremen, Germany. One major industrial customer has opened an operation in China and during 2004 moved a major part of their domestic operations to China. This customer accounted for 22% of international sales, and a contract manufacturer in China accounted for 41% of international sales.

The Company's major customers include contractors to the United States government with fixed price contracts. Sales to these customers for Department of Defense (DOD) and National Aeronautics and Space Administration (NASA) contracts accounted for approximately 64% of the Company's fiscal net sales in 2004 compared to 62% in 2003.

During 2004, two customers accounted for 8% and 10% of the Company's sales compared to 11% and 7% for the year ended November 30, 2003.

Sales for 2004 compared to 2003 increased 16% in the commercial market, 22% in the military market, and 50% in the space market.

Cost of sales, as a percentage of net sales, was 65.0% in 2004 compared to 69.8% in 2003. The cost of goods sold decrease of 4.8% is attributable to stable operating expense on higher sales volume; changes in product mix, and yield improvements on certain products. In actual dollars cost of sales increased $1,253,000 for 2004, versus 2003. Cost of sales decreased $84,000 in the fourth quarter of 2004, compared to the same period of 2003.

Expenses for research and development totaled $438,000 in 2004 compared to $303,000 in 2003. Most of the research and development expenses were concentrated on expanding the company's line of solid state power controllers, high-temperature couplers, detectors, hall-effect devices; and enhancing manufacturing processes to improve the Company's competitive position.

Selling, general, and administrative expenses totaled 17.6% of net sales in 2004, compared to 20.7% in 2003, based on higher sales. In dollars expensed, selling, general and administrative expenses totaled $2,709,000 in 2004 compared to $2,581,000 in 2003, an increase of $128,000, attributable to higher commissions on increased sales and increased selling expense.

Interest income for fiscal 2004 totaled $32,000 compared to $50,000 for fiscal 2003. The decrease is related to lower interest rates on the Company's investments.

Income before taxes for fiscal 2004 was approximately $2,265,000 or 14.7% of net sales, compared to $933,000 or 7.5% of net sales in fiscal 2003. Net income after taxes totaled approximately $1,408,000 or $.55 per share in 2004 versus 2003 net earnings of $611,000 or $.21 per share. Net income after taxes in 2004 increased $797,000 compared to 2003.

New Accounting Standards

None

Item 7. Financial Statements

The financial statements listed below appear on pages 12 through 21 of this Report. The Company is not required to furnish the Supplementary Data required by Item 302 of Regulation S-K.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 9. Directors & Executive Officers of The Registrant

Information related to the Company's Directors and Executive Officers is set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Stockholders to be held on or about March 4, 2005. The information in the proxy is set forth under the heading "Election of Directors and Information as to Directors, Nominees and Executive Officers." The proxy statement will be filed with the Securities and Exchange Commission on or about January 31, 2005, and such information is incorporated by reference.

Item 10. Executive Compensation

Information related to executive compensation is set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Stockholders to be held on or about March 4, 2005. The information in the proxy is set forth under the heading "Executive Compensation." The proxy statement will be filed with the Securities and Exchange Commission on or about January 31, 2005, and such information is incorporated by reference.

Item 11. Security Ownership of Certain Beneficial Owners & Management

Information related to the ownership of certain beneficial owners and management of the Company's Common Stock is set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Stockholders to be held on or about March 4, 2005.

The information in the proxy is set forth under the heading "Securities Ownership of Certain Beneficial Owners and Management." The proxy statement will be filed with the Securities and Exchange Commission on or about January 31, 2005, and such information is incorporated by reference.

Item 12. Certain Relationships and Related Transactions

Information relating to the business relationships and related transactions with respect to the Company and certain Directors, executive officers, nominees for election as Directors and beneficial owners of its securities is set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Stockholders to be held on or about March 4, 2005. The proxy statement will be filed with the Securities and Exchange Commission on or about January 31, 2005, and such information is incorporated by reference.

Item 13. 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 8K -

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 payment will be paid to shareholders on or about February 8, 2005.

On January 8, 2004, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of $.05 per share to all shareholders of record on January 30, 2004. The dividend payment was paid to shareholders on February 13, 2004.

At a Board of Directors meeting held on May 11, 2004, the Board of Directors unanimously elected Mr. Nicholas Nadolsky as a Member and Chairman of the Board, to serve in such positions until the next annual meeting of shareholders or until his earlier death, resignation or removal from office. There is no employment agreement between Mr. Nadolsky and the Company. Since 1980, the Company has leased a 4800 square foot building from Mr. Nadolsky, at a current annual rental of $39,600.

The Company submitted a FORM 8-K to the United States Securities and Exchange Commission on August 27, 2003. The following disclosure was included in the FORM 8-K: On August 27, 2003, the Company purchased 548,836 shares of the Company's common stock pursuant to the terms of an agreement dated February 5, 2001, between the Company and Mr. Nadolsky ("Agreement"). The Agreement obligated the Company to purchase any shares of the Company's common stock owned by Mr. Nadolsky at the fair market value thereof (but in no event less than the book value of such shares) in the event of his death, permanent disability or termination of employment. Mr. Nadolsky's employment terminated on May 1, 2003.

By letter dated August 15, 2003, Mr. Nadolsky requested that the Company purchase the 548,836 shares of the Company's common stock he owned pursuant to the requirements of the above agreement and agreed that the fair value of each share of his common stock was $2.68. The Company paid Mr. Nadolsky a total purchase price of $1,470,880.48.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of October 30, 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-15(e). 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 periodic SEC filings.

(b) Changes in internal controls.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICROPAC INDUSTRIES, INC.

By:

Connie Wood, President
and Chief Executive Officer
(Principal Executive Officer)

By:

Patrick Cefalu, CFO and
Principal Accounting Officer

Dated: 01/31/2005

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on 01/31/2005

Connie Wood, Director

H. Kent Hearn, Director

James K. Murphey, Director

Heinz-Werner Hempel, Director

Nicholas Nadolsky, Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Micropac Industries, Inc.:

We have audited the accompanying balance sheets of Micropac Industries, Inc. as of November 30, 2004 and 2003, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Micropac Industries, Inc. as of November 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas,
January 20, 200

MICROPAC INDUSTRIES, INC.

BALANCE SHEETS

AS OF NOVEMBER 30, 2004 AND 2003

(Dollars in thousands except share data)

ASSETS	2004	2003

CURRENT ASSETS:		
Cash and cash equivalents	$ 1,239	$ 2,337
Short-term investments	2,507	812
Receivables, net of allowance for doubtful accounts of $121 for 2004 and $89 for 2003	2,326	1,877
Inventories		
Raw materials and supplies	1,354	692
Work-in-process	1,346	1,097
Total inventories	2,700	1,789
Deferred income taxes	528	386
Prepaid expenses and other assets	90	71
Total current assets	9,390	7,272
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	797
Machinery and equipment	5,200	5,027
Furniture and fixtures	479	489
Total property, plant, and equipment	7,053	6,891
Less- accumulated depreciation	(6,091)	(5,889)
Net property, plant, and equipment	962	1,002
Total assets	$ 10,352	$ 8,274

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 387	$ 308
Accrued compensation	488	239
Accrued professional fees	11	23
Income taxes payable	306	110
Property taxes	66	65
Commissions payable	46	48
Deferred revenue	404	115
Other accrued liabilities	17	21
Total current liabilities	1,725	929
DEFERRED INCOME TAXES	72	69
COMMITMENTS AND CONTINGENCIES (Note 5)		
SHAREHOLDERS' EQUITY:		
Common stock, $.10 par value, authorized 10,000,000 shares 3,078,315 issued 2,578,315 outstanding at November 30, 2004 and November 30, 2003	308	308
Paid-in capital	885	885
Treasury stock, at cost, 500,000 shares	(1,250)	(1,250)
Retained earnings	8,612	7,333
Total shareholders' equity	8,555	7,276

Total liabilities and shareholders' equity	$ 10,352	$ 8,274

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003

(Dollars in thousands except share data)

	2004	2003
NET SALES	$ 15,356	$ 12,490
COSTS AND EXPENSES:		
Cost of sales	9,976	8,723
Research and development	438	303
Selling, general, and administrative expenses	2,709	2,581
Total costs and expenses	13,123	11,607
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	2,233	883
Interest income	32	50
INCOME BEFORE INCOME TAXES	2,265	933
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	996	387
Deferred	(139)	(65)
Total provision for current and deferred taxes	857	322
NET INCOME	$ 1,408	$ 611
BASIC AND DILUTED EARNINGS PER SHARE	$ .55	$ .21
WEIGHTED AVERAGE NUMBER OF SHARES, basic and diluted	2,578,315	2,944,206

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003

(Dollars in thousands)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Total
BALANCE, November 30, 2002	$ 363	$ 885	$(1,250)	$ 8,450	$ 8,448
Common stock repurchase	(55)	--	--	(1,416)	(1,471)
Dividend	--	--	--	(312)	(312)
Net income	--	--	--	611	611
BALANCE, November 30, 2003	308	885	(1,250)	7,333	7,276
Dividend	--	--	--	(129)	(129)
Net income	--	--	--	1,408	1,408
BALANCE, November 30, 2004	$ 308	$ 885	$(1,250)	$ 8,612	$ 8,555

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003

(Dollars in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,408	$ 611
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	222	230
Deferred tax benefit	(139)	(65)
Changes in certain current assets and liabilities-		
Increase in receivables, net	(449)	(76)
(Increase) decrease in inventories	(911)	511
Increase in prepaid expenses and other assets	(19)	(15)
Increase (decrease) in accounts payable	79	(193)
Increase (decrease) in accrued compensation	249	(17)
Increase in income taxes payable	196	1
Increase (decrease) in all other accrued liabilities	272	(10)
Net cash provided by operating activities	908	977
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(1,695)	(1,400)
Sale of Investments	--	3,428
Additions to property, plant, and equipment	(182)	(181)
Net cash (used in) provided by investing activities	(1,877)	1,847
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock repurchase	--	(1,471)
Dividends paid	(129)	(312)
Net cash used in financing activities	(129)	(1,783)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,098)	1,041
CASH AND CASH EQUIVALENTS, beginning of year	2,337	1,296
CASH AND CASH EQUIVALENTS, end of year	$ 1,239	$ 2,337
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for income taxes, net of refunds received	$ 803	$ 386

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2004 AND 2003

1. BUSINESS DESCRIPTION:

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Revenue Recognition

Revenues are recorded as deliveries are made based upon contract prices. Any losses anticipated on fixed price contracts are provided for currently. Product returns and warranties are accrued for when returned by the customer.

Short-Term Investments

Short-term investments include certificates of deposits with maturities greater than 90 days. These investments are reported at historical cost, which approximates fair market value as of November 30, 2004 and 2003. All highly liquid investments with maturities of 90 days or less are classified as cash equivalents. All short-term investments are securities which the Company has the ability and positive intent to hold to maturity. All held-to maturity securities mature within one year.

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

The Company assesses long-lived assets for impairment under Financial Accounting Standards board Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. When events or circumstances indicate that an asset may be impaired, an assessment is performed. The estimated future undiscounted cash flows associated with the asset are compared to the asset's net book value to determine if a write down to market value or discounted cash flow value is required. The Company adopted SFAS 144 on December 1, 2003. The adoption of SFAS 144 did not affect the Company's financial statements.

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.

Comprehensive Income

Comprehensive income includes net income and other comprehensive income which is generally comprised of changes in the fair value of available-for-sale marketable securities, foreign currency translation adjustments and adjustments to recognise additional minimum pension liabilities. For each period presented in the accompanying statement of income, comprehensive income and net income are the same amount.

Basic and Diluted Earnings Per 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. During 2004 and 2003, the Company had no dilutive potential common stock.

Use of Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. NOTES PAYABLE TO BANKS:

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 bank's prime rate less 1/4%. The line of credit expires on June 7, 2005. The Company has not utilized any portion of the available facility. The line of credit requires that the Company maintain certain financial ratios. The Company was in compliance with these covenants during the 2004 fiscal year.

4. RELATED PARTIES:

The Company leases a building from the Company's Chairman of the Board. A lease was signed on July 1, 1999, for a term of five (5) years and renewed in April 2004 for three (3) years under similar terms and conditions as the prior lease. Amounts paid under the lease agreement approximated $39,000 in 2004 and 2003.

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.

Effective May 13, 2003, the Company's Board of Directors approved the formation of an audit committee composed of the five (5) members of the Board. It is possible that the members of the audit committee 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. The Board of Directors held eight (8) board meetings during the year ended November 30, 2004. Directors receive a fee of $500.00 for each meeting. The Audit Committee held four (4) meetings during the year ended November 30, 2004. Members of the Audit Committee received a fee of $500.00 for each meeting.

On August 27, 2003, the Company purchased 548,836 shares of the Company's common stock pursuant to the terms of an agreement dated February 5, 2001, between the Company and Mr. Nadolsky ("Agreement"). The Agreement obligated the Company to

purchase any shares of the Company's common stock owned by Mr. Nadolsky at the fair market value thereof (but in no event less than the book value of such shares) in the event of his death, permanent disability or termination of employment. Mr. Nadolsky's employment terminated on May 1, 2003. By letter dated August 15, 2003, Mr. Nadolsky requested that the Company purchase the 548,836 shares of the Company's common stock he owned pursuant to the requirements of the above agreement and agreed that the approximate fair value of each share of his common stock was $2.68. The Company paid Mr. Nadolsky a total purchase price of $1,470,880. These shares were subsequently retired.

5. PRODUCT WARRANTIES:

The Company records a reserve for product warranties based on known instances of defects upon customer notification. The activity in the product liability account is as follows:

Balance, November 30, 2003	$	0
Expense for repaired product	$	33,600
Product warranty accruals	$	33,600

Balance, November 30, 2004	$ 0

6. LEASE COMMITMENTS:

Rent expenses for the years ended November 30, 2004 and 2003, was approximately $45,000 and $42,000 respectively per year.

The Company's future minimum lease payments under non-cancelable operating leases (including the related party lease described in note 4) for office and manufacturing space with remaining terms in excess of one year are approximately:

2005		$ 40,000
2006		$ 40,000
2007		$ 20,000
	Total	$ 100,000

7. EMPLOYEE BENEFITS:

The Company sponsors an Employees' Profit Sharing Plan and Trust (the "Plan"). Pursuant to section 401(k) of the Internal Revenue Code, the Plan is available to substantially all employees of the Company. Employee contributions to the Plan are matched by the Company at amounts up to 6% of the participant's salary. Contributions made by the Company were approximately $131,000 in 2004 and $138,000 in 2003. Employees become vested in Company contributions at 20% after two years, 40% after three years, 60% after four years, 80% after five years and 100% after six years. If the employee leaves the Company prior to being fully vested, the unvested portion of the Company's contributions are forfeited and such forfeitures are used to lower future Company contributions. The Company does not offer other post retirement benefits to its employees at this time.

8. NEW ACCOUNTING STANDARDS

None

9. INCOME TAXES:

The income tax provision consisted of the following for the years ended November 30:

	2004	2003
Current Provision		
Federal	$ 854,000	$ 319,000
State	142,000	68,000
	996,000	387,000
Deferred Benefit		
Federal	(139,000)	(65,000)

Total	$ 857,000	$ 322,000

The provision for income taxes differs from that computed at the federal statutory corporate tax rate as follows:

	2004	2003
Tax at 34% statutory rate	$ 770,000	$ 317,000
State income taxes, net of federal benefit	82,000	45,000
Adjustment to prior year estimates	5,000	(40,000)
Income tax provision	$ 857,000	$ 322,000

The components and changes in deferred tax assets and liabilities were as follows:

	November 30, 2004	November 30, 2003
Current Deferred Taxes -		
Allowance for doubtful accounts	$ 45,000	$ 33,000
Inventory	280,000	267,000
Accrued liabilities and other	203,000	86,000
Net current deferred tax asset	$528,000	$386,000
Non-current Deferred Taxes Liability		
Depreciation and other	$ 72,000	$ 69,000
Net deferred taxes	$456,000	$317,000

10. SIGNIFICANT CUSTOMER INFORMATION:

The Company's primary line of business relates to the design, manufacture, and sale of hybrid microcircuits and optoelectronic components and assemblies. Sales result primarily from subcontracts with customers for ultimate production and delivery to the United States government. Sales to primary contractors for defense and space related contracts accounted for 64% of total sales in 2004 and 62% of total sales in 2003. During 2004, two customers accounted for 8% and 10% of the Company's sales compared to 11% and 7% for the year ended November 30, 2003.

11. SHAREHOLDERS' EQUITY:

On November 30, 2004, there were approximately 559 shareholders of record of the Company's common stock. The stock of the Company is closely held; and, therefore, certain shareholders/board members have the ability to significantly influence decisions.

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.

On August 27, 2003, the Company purchased 548,836 shares of the Company's common stock pursuant to the terms of an agreement dated February 5, 2001, between the Company and Mr. Nadolsky ("Agreement"). The Agreement obligated the Company to purchase any shares of the Company's common stock owned by Mr. Nadolsky at the fair market value thereof (but in no event less than the book value of such shares) in the event of his death, permanent disability or termination of employment. Mr. Nadolsky's employment terminated on May 1, 2003. By letter dated August 15, 2003, Mr. Nadolsky requested that the Company purchase the 548,836 shares of the Company's common stock he owned pursuant to the requirements of the above agreement and agreed that the fair value of each share of his common stock was $2.68. The Company paid Mr. Nadolsky a total purchase price of $1,470,880. These shares were subsequently retired.

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of November 30, 2004, there were 500,000 options available to be granted; however, no options had been granted at year-end.

12. SUBSEQUENT EVENTS

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 payment will be paid to shareholders on or about February 8, 2005.

DIRECTORS AND OFFICERS

NOVEMBER 30, 2004

NICHOLAS NADOLSKY
Chairman of the Board
Micropac Industries, Inc

CONNIE WOOD
Chief Executive Officer
Micropac Industries, Inc.

HEINZ-WERNER HEMPEL
Chief Operating Officer

Hanseatishe Waren Handelsgesellschaft MBH & Co. KG, Bremen, Germany

H. KENT HEARN
Stockbroker
Milkie-Ferguson, Dallas, Tx.

JAMES K. MURPHEY
Corporate Attorney
Glast, Phillips and Murray, Dallas, Tx.

PATRICK CEFALU
Chief Financial Officer
Micropac Industries, Inc.

MARK KING
Chief Operating Officer
Micropac Industries, Inc.

LEGAL COUNSEL
Glast, Phillips and Murray
Dallas, Tx

TRANSFER AGENT & REGISTRAR
Securities Transfer
Frisco, Texas