

MICROPAC INDUSTRIES INC
Form 10-K
February 17, 2010

United States Securities and Exchange Commission

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended November 30, 2009

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 000-5109

Micropac Industries, Inc.

(Exact name of registrant as specified in charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-1225149

(I.R.S. Employer Identification
No.)

**905 E. Walnut Street, Garland,
TX**

(Address of principal executive
offices)

75040

(Zip Code)

972/272-3571

(Telephone No.)

Securities Registered Pursuant to Section 12(b) of the Act:

**Name of each exchange on
which registered**

Title of each class

None

N/A

Securities Registered Pursuant to Section 12(g) of the Act:

Common stock, par value \$0.10 per share
(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of May 29, 2009, representing the last business day of the registrant's most recently completed second fiscal quarter was approximately \$3,372,000, The number of shares of the registrant's common stock, \$0.10 par value, outstanding as of February 15, 2010 was 2,578,315.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Shareowners, to be held March 12, 2010, is incorporated by reference in Part III to the extent described therein.

Table of Contents

		Page
Part I		
<u>Item 1.</u>	Business	1
<u>Item 1A.</u>	Risk Factors	3
<u>Item 1B.</u>	Unresolved Staff Comments	5
<u>Item 2.</u>	Properties	5
<u>Item 3.</u>	Legal Proceedings	5
<u>Item 4.</u>	Submission of Matters to a Vote of Security Holders	5
Part II		
<u>Item 5.</u>	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	6
<u>Item 6.</u>	Selected Financial Data	6
<u>Item 7.</u>	Management’s Discussion and Analysis of Financial Condition and Results of Operations	7
<u>Item 7A.</u>	Quantitative and Qualitative Disclosures About Market Risk	10
<u>Item 8.</u>	Financial Statements and Supplementary Data	10
<u>Item 9.</u>	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	20
<u>Item 9A(T).</u>	Controls and Procedures	20
<u>Item 9B.</u>	Other Information	21
Part III		
<u>Item 10.</u>	Directors, Executive Officers and Corporate Governance	22
<u>Item 11.</u>	Executive Compensation	24
<u>Item 12.</u>	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	25
<u>Item 13.</u>	Certain Relationships and Related Transactions, and Director Independence	26
<u>Item 14.</u>	Principal Accounting Fees and Services	26
Part IV		
<u>Item 15.</u>	Exhibits, Financial Statement Schedules	27
	<u>Signatures</u>	28

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 (200° C) products.

The Company's facilities are certified and qualified by Defense Supply Center Columbus (DSCC) to MIL-PRF-38534 (class K-space level); MIL-PRF-19500 JANS (space level), MIL-PRF-28750 (class K- space level), and is certified to ISO 9001-2002. Micropac is a National Aeronautics and Space Administration (NASA) core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification.

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 approximately 500 shareholders on November 30, 2009, of which some cannot be located.

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 accounted for approximately 21% of the Company's sales for the fiscal year ended November 30, 2009, and were 27% for fiscal 2008. Standard components accounted for approximately 79% of the Company's sales for the fiscal year ended November 30, 2009, and were 73% for fiscal 2008.

The Company provides microelectronic and optoelectronic components and assemblies along with contract electronic manufacturing services and offers a wide range of products sold to the industrial, medical, military, aerospace and space markets.

The microcircuits product line, including custom microcircuits, solid state relays, power operational amplifiers, and regulators accounted for 55% of the Company's business in 2009, and the optoelectronics product line accounted for 45% of the Company's business in 2009, compared to 44% and 56% in 2008, respectively. . The major decreases in sales were to international customers associated with the economic downturn in 2009 and optoelectronic products sold through the distribution channels due to stock level reductions at the distributors.

The Company's core technology is the packaging and interconnects of miniature electronic components, utilizing thick film and thin film substrates, forming microelectronics circuits. Other technologies include light emitting and light sensitive materials and products, including light emitting diodes and silicon phototransistors used in the Company's optoelectronic components, and assemblies. The Company's basic products and technologies include:

- Custom design hybrid microelectronic circuits
- Solid state relays and power controllers
- Custom optoelectronic assemblies and components
- Optocouplers
- Light-emitting diodes
- Hall-Effect devices
- Displays
- Power operational amplifiers

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Fiber optic components and assemblies
High temperature (200° C) products

Micropac's products are primarily sold to original equipment manufacturers (OEM's) who serve the following major markets:

Military/Aerospace – aircraft instrumentation, guidance and navigations systems, control circuitry, power supplies, laser positioning
Space – control circuitry, power monitoring and sensing
Industrial – power control equipment, robotics

The Company has no patents, licenses, franchises, concessions, royalty agreements or labor contracts. The Company's trademark "Mii" is registered with the U.S. Patent and Trademark Office.

Sales of our products internationally are subject to government regulations, including export control regulations of the U.S. Department of State and Department of Commerce. Violation of these regulations by the Company could result in monetary penalties and denial of export privileges. We are not aware of any violations of export control regulations.

Five of the Company's principal product families require government approval. Further, a significant portion of our business is military and is dependent on maintaining our facility certifications to MIL-PRF-38534, MIL-PRF-19500 and MIL-PRF-28750. We expect to maintain these certifications and qualifications; however, the loss of any of these certifications would have a significant impact on our business.

Government regulations impose certain controls on chemicals used in electronics and semiconductor manufacturing. Micropac has obtained all the necessary environmental permits, and routinely monitors and reports the wastewater stream results to the local governing agency. Micropac is classified as a small generator of hazardous waste, and the annual cost of complying with the regulations is minimal.

In 2009, the Company's investment in technology through research and development, which was expensed, totals approximately \$639,000 (\$530,000 in 2008). 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.

In addition to the Company's investment in research and development, various customers paid the Company approximately \$205,000 in non-recurring engineering costs associated with the development of custom products for specific applications.

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.

CUSTOMERS

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 21% of the sales for fiscal year 2009 (23% in 2008) 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.

Sales through the Company's distribution channels were \$2,800,000 in 2009 compared to \$4,008,000 in 2008 or 16% and 20% of sales, respectively.

The Company's major customers include contractors to the United States government. Sales to these customers for Department of Defense (DOD) and NASA contracts accounted for approximately 71% of the Company's revenues in 2009 compared to 68% in 2008.

The Company's major customers are Lockheed Martin, Northrop Grumman, Boeing, Rockwell Int'l, and NASA.

At any time a single customer may have a disproportionate and material impact on the company's operations and profit and loss.

BACKLOG

At November 30, 2009, the Company had a backlog of unfilled orders totaling approximately \$14,102,000 compared to approximately \$9,723,000 at November 30, 2008. The Company expects to complete and ship most of its November 30, 2009 backlog during fiscal 2010.

EMPLOYEES

At November 30, 2009, the Company had 133 full-time employees (compared to 138 at November 30, 2008), of which 30 were executive and managerial employees, 32 were engineers and quality-control personnel, 15 were clerical and administrative employees, and 56 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, veterans, and handicapped individuals.

COMPETITION

The Company competes with two or more companies with respect to each of its major products, including custom hybrid microcircuits, solid state relays and power controllers, optocouplers, light-emitting diodes, light sensitive silicon phototransistors and diodes, hall-effect devices, displays, power operational amplifier, custom optoelectronic components and assemblies. These products and technologies are sold into various markets, including military/aerospace, space, industrial and medical. Some of these competitors are larger and have greater capital resources than the Company. Management believes the Company's competitive position is favorable with regard to our product reliability and integrity, past performance, customer service and responsiveness, timely delivery and pricing; however, no assurance can be given that the Company can compete successfully in the future.

There are approximately 38 independent hybrid microcircuit manufacturing companies who are certified to supply microcircuits to MIL-PRF-38534, in addition to OEM's, who manufacture hybrid microcircuits for their internal needs. Micropac may compete with all of these for hybrid microcircuit business. Some of the Company's primary competitors are Teledyne Industries, Inc., Advanced Photonix, Honeywell, Avago, and International Rectifier.

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 and could result in loss of customers or sales. 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. However, the Company has not been materially affected by such shortages. The Company's delivery commitments to customers allow for adequate lead times for production of the products including lead time for order and receipt from the supply chain.

Some of the Company's primary suppliers are International Rectifier, NTK Technologies, Electrovac, Schott Glass, Microcross Components, Kyocera, Microsemi, and Aborn Electronics.

Item 1A. Risk Factors

This Form 10K contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially. Investors are warned that forward-looking statements involve risks and unknown factors including, but not limited to, customer cancellation or rescheduling of orders, problems affecting delivery of vendor-supplied raw materials and components, unanticipated manufacturing problems and availability of direct labor resources.

Such risks and uncertainties include, but are not limited to historical volatility and 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.

The Company disclaims any responsibility to update the forward-looking statements contained herein, except as may be required by law.

Majority shareholder ability to control the election of the Board of Directors

The Company's majority shareholder, Mr. Heinz-Werner Hempel, established a partnership organized under the laws of Germany which owns 1,952,577 shares or 75.7% of the outstanding voting shares. Mr. Hempel through the partnership has the ability to control the election of the Company's Board of Directors and elect individuals who may be more sympathetic to such majority shareholders' desires and not necessarily sympathetic to the desires of minority shareholders as to the policies and directions of the Company. However, the ability to control the election of the Board of Directors does not modify the fiduciary duties of the Board of Directors to represent the interests of all shareholders.

Availability of public share for purchase and sale

A small number of shares are available for public purchase and sale. As a result, the company's reported share price may be subject to extreme fluctuations due in part to the small number of shares traded at any time.

Pricing pressures from customers for reduction in selling prices

The Company continues to experience pricing pressures from some of its OEM customers. In some cases, the Company's customers request the review of pricing for possible reduction in selling price on future orders. This requires the Company to improve its productivity and to request similar price reductions from its supplier chain. If one or both of the approaches by the Company does not succeed, the Company could be required to reduce the selling price on future orders reducing the product gross margins and affecting the Company's net earnings in order to receive future orders from the customer. However, the Company has no agreement that requires a reduction in the selling price on any current customer order. All contracts are firm fixed pricing.

Insurance coverage and exposure to substantial claims or liabilities

The Company operates manufacturing facilities in Garland, Texas and subcontracts portions of the Company's manufacturing to a contract manufacturer in 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 Garland, Texas and for equipment and inventory located at the contract manufacturer in Juarez, Mexico. In addition to the basic policies mentioned, the Company maintains an umbrella insurance policy. The Company reviews all insurance coverage on an annual basis, and makes any necessary adjustments based on risk assessment and changes in its business. In the opinion of the Company's management, and its' insurance advisors, the Company is adequately insured; however, the Company's financial position could be materially affected by claims not covered or exceeding coverage currently carried by the Company.

The Company is subject to numerous environmental regulations or changes in government policy

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.

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.

Product liability claims

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 from suppliers could affect ability to manufacture products or delay shipments to customers

The Company relies on suppliers to deliver quality raw materials in a timely and cost effective manner. Most of the materials and components are generally available from multiple sources; however, 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's operations; however, the Company is not currently impacted by materials shortages.

The ability to develop new products and technologies used in the military, space or aerospace markets

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.

General economic downturn or the current credit crisis

The Company cannot assure you that our business will not be adversely affected as a result of an industry or general economic downturn, or the current credit crisis. If the Company's supply chain is adversely affected by the current credit crisis or economic downturn, this could result in the Company's inability to secure materials and could have adverse effects on the Company's ability to deliver products on a timely basis.

Item 1B. Unresolved Staff Comments

None

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.

The Company also subcontracts some manufacturing to Inmobiliaria San Jose De Ciudad Juarez S.A. DE C.V, a maquila contract manufacturer in Juarez, Mexico. The Company owns all equipment and inventory with temporary importation into Mexico under the maquila rules of Mexico. The Company does not lease or own any real property in Mexico.

The Company employs an International Sales Manager in Bremen, Germany who coordinates sales to Western European customers made by independent representatives. The sales manager maintains an office in a private residence. The Company does not lease or own any real property in Germany, or any other foreign country.

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, 2009.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

On November 30, 2009, there were approximately 500 shareholders of record of the Company’s common stock. The stock of the Company is closely held; and, therefore, certain shareholders have the ability to significantly influence decisions. Our common stock is quoted on the OTC Bulletin Board under the symbol “MPAD.OB”. The following sets forth the high and low bid prices for each quarter during the last two fiscal years:

	High	Low
Fiscal Year Ended November 30, 2009		
Fourth Quarter	\$ 5.30	\$ 3.51
Third Quarter	\$ 5.10	\$ 1.19
Second Quarter	\$ 5.10	\$ 2.00
First Quarter	\$ 5.20	\$ 2.00
Fiscal Year Ended November 30, 2008		
Fourth Quarter	\$ 7.30	\$ 2.25
Third Quarter	\$ 8.00	\$ 5.66
Second Quarter	\$ 7.05	\$ 5.66
First Quarter	&n	