

COLONY BANKCORP INC
Form 10-Q
May 09, 2007
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED MARCH 31, 2007

COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA
(STATE OR OTHER JURISDICTION OF

58-1492391
(I.R.S. EMPLOYER

INCORPORATION OR ORGANIZATION)

IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000

REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 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 WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER OR A NONACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER AND LARGE ACCELERATED FILER IN RULE 12b-2 OF THE EXCHANGE ACT. (CHECK ONE)

LARGE ACCELERATED FILER ACCELERATED FILER NON ACCELERATED FILER

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE ACT).

YES NO

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INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

CLASS	OUTSTANDING AT MAY 9, 2007
COMMON STOCK, \$1 PAR VALUE	7,204,775

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Forward Looking Statement Disclosure

Statements in this Quarterly Report regarding future events or performance are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA) and are made pursuant to the safe harbors of the PSLRA. Actual results of Colony Bankcorp, Inc. (the Company) could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words could, may, will, should, plan, believe, anticipates, estimates, predicts, expects, projections, similar import, constitute forward-looking statements, as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Quarterly Report as well as the following specific items:

General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;

Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company's most valued customers, defection of key employees or groups of employees, or other losses;

Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company's investment securities;

Changing business or regulatory conditions, or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;

Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenue, increase our costs or lead to disruptions in our business.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (SEC).

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PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND SUBSIDIARIES: COLONY BANK OF FITZGERALD, COLONY BANK ASHBURN, COLONY BANK WILCOX, COLONY BANK OF DODGE COUNTY, COLONY BANK WORTH, COLONY BANK SOUTHEAST, COLONY MANAGEMENT SERVICES, INC., AND COLONY BANK QUITMAN, FSB.

- A. CONSOLIDATED BALANCE SHEETS MARCH 31, 2007 AND DECEMBER 31, 2006.
- B. CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006.
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006.
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006.

THE CONSOLIDATED FINANCIAL STATEMENTS FURNISHED HAVE NOT BEEN AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, BUT REFLECT, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING SOLELY OF NORMAL RECURRING ADJUSTMENTS) NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS OF OPERATIONS FOR THE PERIODS PRESENTED.

THE RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****MARCH 31, 2007 AND DECEMBER 31, 2006****(DOLLARS IN THOUSANDS)**

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 21,583	27,231
Federal Funds Sold	35,004	45,149
	56,587	72,380
Interest-Bearing Deposits	2,810	3,076
Investment Securities		
Available for Sale, at Fair Value	156,028	149,236
Held to Maturity, at Cost (Fair Value of \$73 and \$71, as of March 31, 2007 and December 31, 2006, Respectively)	73	71
	156,101	149,307
Federal Home Loan Bank Stock, at Cost	4,903	5,087
Loans Held for Sale	335	
Loans		
Allowance for Loan Losses	(12,170)	(11,989)
Unearned Interest and Fees	(431)	(501)
	917,649	929,783
Premises and Equipment	27,268	27,453
Other Real Estate	1,563	970
Goodwill	2,412	2,412
Other Intangible Assets	429	439
Other Assets	21,350	22,597

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Total Assets	\$ 1,191,407	\$ 1,213,504
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-Bearing	\$ 76,702	\$ 77,336
Interest-Bearing	947,930	965,110
	1,024,632	1,042,446
Borrowed Money		
Federal Funds Purchased	480	1,070
Subordinated Debentures	24,229	24,229
Other Borrowed Money	55,000	61,500
	79,709	86,799
Other Liabilities	8,513	7,648
Commitments and Contingencies		
Stockholders Equity		
Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,204,775 and 7,189,937 Shares as of March 31, 2007 and December 31, 2006, Respectively	7,205	7,190
Paid-In Capital	24,503	24,257
Retained Earnings	48,013	46,417
Restricted Stock - Unearned Compensation	(478)	(278)
Accumulated Other Comprehensive Loss, Net of Tax	(690)	(975)
	78,553	76,611
Total Liabilities and Stockholders Equity	\$ 1,191,407	\$ 1,213,504

The accompanying notes are an integral part of these statements.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	3/31/2007	3/31/2006
Interest Income		
Loans, Including Fees	\$ 19,768	\$ 16,753
Federal Funds Sold	631	479
Deposits with Other Banks	41	18
Investment Securities		
U.S. Government Agencies	1,544	1,164
State, County and Municipal	134	91
Corporate Obligations	63	36
Dividends on Other Investments	76	59
	22,257	18,600
Interest Expense		
Deposits	10,607	7,514
Federal Funds Purchased	6	9
Borrowed Money	1,193	1,144
	11,806	8,667
Net Interest Income	10,451	9,933
Provision for Loan Losses	914	922
Net Interest Income After Provision for Loan Losses	9,537	9,011
Noninterest Income		
Service Charges on Deposits	1,118	1,032
Other Service Charges, Commissions and Fees	246	215
Mortgage Fee Income	252	123
Securities Gains	184	
Other	310	238
	2,110	1,608
Noninterest Expenses		
Salaries and Employee Benefits	4,542	4,079

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Occupancy and Equipment	1,001	985
Other	2,366	2,023
	7,909	7,087
Income Before Income Taxes	3,738	3,532
Income Taxes	1,264	1,223
Net Income	\$ 2,474	\$ 2,309
Net Income Per Share of Common Stock		
Basic	\$ 0.34	\$ 0.32
Diluted	\$ 0.34	\$ 0.32
Cash Dividends Declared Per Share of Common Stock	\$ 0.0875	\$ 0.0775
Weighted Average Basic Shares Outstanding	7,181,568	7,170,406
Weighted Average Diluted Shares Outstanding	7,194,741	7,172,669

The accompanying notes are an integral part of these statements.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended 03/31/07	Three Months Ended 03/31/06
Net Income	\$ 2,474	\$ 2,309
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During the Year	406	(293)
Reclassification Adjustment	(121)	
Unrealized Gains (Losses) on Securities	285	(293)
Comprehensive Income	\$ 2,759	\$ 2,016

The accompanying notes are an integral part of these statements.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2007	2006		
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	\$ 2,474	\$	2,309	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	469		473	
Provision for Loan Losses	914		922	
Securities Gains	(184)			
Amortization and Accretion	138		173	
(Gain) Loss on Sale of Other Real Estate and Repossessions	80		7	
Gain on Sale of Equipment			(1)	
Increase in Cash Surrender Value of Life Insurance	(49)		(48)	
Change in Loans Held for Sale	(335)			
Other Prepaids, Deferrals and Accruals, Net	1,712		504	
	5,219		4,339	
CASH FLOWS FROM INVESTING ACTIVITIES				
Federal Home Loan Bank Stock		184		
Selling, general & administrative expenses	(976)	(937)	(2,791)	(2,895)
Total cost and expenses	(4,096)	(4,109)	(11,773)	(13,393)
OPERATING INCOME BEFORE INTEREST, OTHER INCOME AND INCOME TAXES	536	515	671	2,258
Interest and other income	21	7	27	14
INCOME BEFORE TAXES	\$557	\$522	698	\$2,272
Provision for taxes	(200)	(188)	(251)	(818)
NET INCOME	\$357	\$334	\$447	\$1,454
NET INCOME PER SHARE, BASIC AND DILUTED	\$0.14	\$0.13	\$0.17	\$0.56
DIVIDENDS PER SHARE	\$-	\$-	\$0.10	\$0.10
WEIGHTED AVERAGE OF SHARES, Basic and diluted	2,578,315	2,578,315	2,578,315	2,578,315

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine months ended	
	8/25/2012	8/27/2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$447	\$1,454
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	240	234
Deferred tax expense	104	-
Changes in certain current assets and liabilities		
(Increase) decrease in accounts receivable	(620)	512
Increase in inventories	(700)	(179)
Increase in prepaid expense and other current assets	(53)	(104)
Decrease in deferred revenue	(170)	(735)
Increase in accounts payable	504	80
Decrease in accrued compensation	(120)	(195)
Decrease in other accrued liabilities	(289)	(132)
(Decrease) increase in income taxes payable	(61)	32
Net cash provided by (used in) operating activities	(718)	967
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short term investments	(3)	(1,000)
Additions to property, plant and equipment	(385)	(727)
Net cash used in investing activities	(388)	(1,727)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
Net cash used in financing activities	(258)	(258)
Net change in cash and cash equivalents	(1,364)	(1,018)
Cash and cash equivalents at beginning of period	8,488	9,085
Cash and cash equivalents at end of period	\$7,124	\$8,067
Supplemental Cash Flow Disclosure:		
Cash paid for income taxes	\$75	\$978

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 1 BASIS OF PRESENTATION

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. 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.

The Company’s facilities are certified and qualified by Defense Logistics Agency (DLA) to MIL-PRF-38534 (class K-space level), MIL-PRF-19500 JANS (space level), and MIL-PRF-28750 (class K-space level) and is certified to ISO 9001-2002. Micropac is a NASA core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification.

The Company’s core technology is the packaging and interconnecting of miniature electronic components, utilizing thick film and thin film substrates, and 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.

In the opinion of management, the unaudited financial statements include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position as of August 25, 2012, the results of operations for the three months and nine months ended August 25, 2012 and August 27, 2011, and the cash flows for the nine months ended August 25, 2012 and August 27, 2011. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2011. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles 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 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Revenue Recognition

Revenues are recorded as shipments are made based upon contract prices. Any losses anticipated on fixed price contracts are provided for currently. Sales are recorded net of sales returns, allowances and discounts.

The Company recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 605-10-S99, Revenue Recognition (ASC 605-10-S99). ASC 605-10-S99 requires that four basic criteria must be met before revenues can be recognized: (1) persuasive evidence of an arrangement exists; (2) shipment has occurred or services have been rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured.

Deferred revenue represents prepayments from customers and will be recognized as revenue when the products are shipped per the terms of the contract.

Short-Term Investments

The Company has \$2,003,000 in short term investments at August 25, 2012. Short-term investments consist of certificates of deposit with original maturities greater than 90 days. These investments are reported at historical cost, which approximates fair value. All highly liquid investments with original maturities of 90 days or less are classified as cash equivalents. All short-term investments are securities which the Company has the ability and intent to hold to maturity and 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 writes down obsolete and overstocked inventory based on the usage of inventory over a three year period and projected usage based on current backlog.

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 ASC 360-10-35, Property, Plant and Equipment – Subsequent Measurement. 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 less cost to sell is required.

Repairs and maintenance are expensed as 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.

Note 3 FAIR VALUE MEASUREMENT

The Company had no financial assets and liabilities measured at fair value on a recurring basis as of August 25, 2012 and November 30, 2011. The fair value of financial instruments such as cash and cash equivalents, short term investments, accounts receivable, and accounts payable approximate their carrying amount based on the short maturity of these instruments. There were no nonfinancial assets measured at fair value on a nonrecurring basis at August 25, 2012 and November 30, 2011.

Note 4 RELATED PARTIES

Mr. Eugene Robinson, a director and member of the Company’s audit committee, provides advisory services to the Company. Mr. Robinson was paid \$1,800 in advisory services fees in both 2012 and 2011.

Note 5 STOCK-BASED COMPENSATION

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan") with 500,000 options available to be granted. No options have been granted to date.

Note 6 COMMITMENTS

On June 1, 2011, the Company renewed a \$6,000,000 revolving line of credit agreement with a Texas banking institution for a term of two years. The interest rate is equal to the prime rate. The line of credit requires that the Company maintain a quick ratio of at least 1:1, maintain a tangible net worth of \$10,000,000 and maintain a total liabilities to tangible net worth of less than 1.25:1. The Company has not, to date, used any of the available line of credit. The Company is currently in compliance with all financial covenants.

Note 7 EARNINGS PER COMMON SHARE

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the respective periods. Diluted earnings per share give effect to all dilutive potential common shares. For the three and nine months ended August 25, 2012 and August 27, 2011, the Company had no dilutive potential common stock.

Note 8 SHAREHOLDERS' EQUITY

On December 16, 2010, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of \$0.10 per share for shareholders of record as of January 18, 2011. The dividend was paid to the shareholders on February 10, 2011.

On December 12, 2011, the Board of Directors of Micropac Industries, Inc. approved the payment of a special dividend of \$0.10 per share for shareholders of record as of January 18, 2012. The dividend was paid to the Company's shareholders on February 14, 2012.

Note 9 SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date, through the issuance of the financial statements, for appropriate accounting and disclosure.

MICROPAC INDUSTRIES, INC.

(Unaudited)

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

Business

Micropac Industries, Inc. (the "Company"), a Delaware corporation, manufactures and distributes various types of hybrid microelectronic circuits, solid state relays, power operational amplifiers, and optoelectronic components and assemblies. The Company's products are used as components in a broad range of military, space and industrial systems, including aircraft instrumentation and navigation systems, power supplies, electronic controls, computers, medical devices, and high-temperature (200o C) products. The Company's products are either custom (being application specific circuits designed and manufactured to meet the particular requirements of a single customer) or standard, proprietary components such as catalog items.

The Company's facilities are certified and qualified by Defense Logistics Agency (DLA) to MIL-PRF-38534 (class K-space level), MIL-PRF-19500 JANS (space level), and MIL-PRF-28750 (class K-space level) and is certified to ISO 9001-2002. Micropac is a NASA core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification.

The Company's core technology is the packaging and interconnect of miniature electronic components, utilizing thick film and thin film substrates, and 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.

Results of Operations

	Three months ended				Nine months ended			
	8/25/2012		8/27/2011		8/25/2012		8/27/2011	
NET SALES	100.00	%	100.00	%	100.00	%	100.00	%
COST AND EXPENSES:								
Cost of Goods Sold	63.7	%	66.7	%	69.2	%	64.0	%
Research and development	3.6	%	1.9	%	3.0	%	3.1	%
Selling, general & administrative expenses	21.1	%	20.3	%	22.4	%	18.5	%
Total cost and expenses	88.4	%	88.9	%	94.6	%	85.6	%
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	11.6	%	11.1	%	5.4	%	14.4	%
Interest income	0.4	%	0.2	%	0.2	%	0.1	%
INCOME BEFORE TAXES	12.0	%	11.3	%	5.6	%	14.5	%
Provision for taxes	4.3	%	4.1	%	2.0	%	5.2	%

NET INCOME 7.7 % 7.2 % 3.6 % 9.3 %

Sales for the three and nine month periods ended August 25, 2012 totaled \$4,632,000 and \$12,444,000, respectively. Sales for the third quarter increased \$8,000 compared to the same period of 2011, while sales for the first nine months of 2012 decreased \$3,207,000 or 20.5% below the first nine months of 2011. Sales were 25% in the commercial market, 60% in the military market, and 15% in the space market for the nine months ended August 25, 2012 compared to 21% in the commercial market, 46% in the military market, and 33% in the space market for the nine months ended August 25, 2011. The major decrease in sales was in microcircuits space level products with a delay or decrease in new orders in the space industry.

The Company's management expects sales and operating income during the fourth quarter to remain consistent with the third quarter resulting in a decrease in sales and profit for 2012 as compared to 2011. The current economic downturn and government funding is resulting in delayed or cancelled satellite programs resulting in lower new orders for space level solid state power controllers, lower sales and lower profits.

Two customers accounted for 15% and 10% of the Company's sales for the three months ended August 25, 2012 and the same two customers accounted for 11% and 12% of the Company's sales for the nine months ended August 25, 2012. One customer accounted for 18% and 10% of the Company's sales for the three and nine months ended August 27, 2011, respectively.

Cost of goods sold for the third quarters of 2012 and 2011 totaled 63.7% and 66.7% of net sales, respectively, while cost of goods sold for the nine months ended August 25, 2012 and August 27, 2011 totaled 69.2% and 64.0% of net sales, respectively. The decrease in cost of goods sold as a percentage of sales for the 3 months ended August 25, 2012 compared to the same period of 2011 is associated with increased sales of custom displays and sensors with higher gross margins and the release of a customer warranty reserve offset by the cost to rework and replace the units. The increase in cost of goods sold as a percentage of sales for the nine months ended is attributable to changes in product mix and underabsorbed overhead cost. In actual dollars, cost of goods sold decreased \$131,000 for the third quarter and decreased \$1,403,000 for the first nine months of 2012 as compared to the same periods in 2011.

Research and development expense increased \$79,000 for the third quarter of 2012 versus 2011 and decreased \$113,000 for the first nine months of 2012 compared to the same period of 2011. The research and development expenditures were associated with continued development of power management products and high voltage optocouplers to be sold to various existing or new customers. The decrease in research and development expense for the nine months ended August, 25, 2012 is associated with several engineers leaving the Company at the end of 2011 and first quarter of 2012. One engineer was replaced in the second quarter of 2012, while the other engineers have not been replaced.

Selling, general and administrative expense for the third quarter and first nine months of 2012 totaled 21.1% and 22.4% of net sales, respectively, compared to 20.3% and 18.5% for the same periods in 2011. In actual dollars, selling, general and administrative expense increased \$39,000 for the third quarter and decreased \$104,000 for the first nine months of 2012 compared to the same periods in 2011. The dollar decrease resulted from lower health insurance expense due to a change in health care providers, as well as decreased incentive compensation as a result of decreased sales and profits.

Provisions for taxes increased \$12,000 for the third quarter and decreased \$567,000 for the first nine months of 2012 compared to the same periods in 2011. The estimated effective tax rate was 36% for all periods presented during 2012 and 2011.

Accounts receivable, net, totaled \$2,531,000 as of August 25, 2012 and represents an increase of \$620,000 since November 30, 2011, due to slower collections with days sales outstanding of 49 compared to 40 days at November 30, 2011. The Company expects to collect all accounts receivable due.

Inventory increased \$700,000 since November 30, 2011 associated with material purchased on new orders for military solid state relays, a custom optoelectronic product to the military, and one new custom medical product.

Property, plant, and equipment investments totaled \$385,000 since November 30, 2011. The Company invested in new automation equipment associated with die attach and wire bonding.

Accounts payable increased \$504,000 since November 30, 2011 associated with an increase in orders and the purchase of associated material.

Liquidity and Capital Resources

Cash and cash equivalents and short term investments totaled \$9,127,000 as of August 25, 2012 compared to \$10,488,000 on November 30, 2011, a decrease of \$1,361,000. The decrease in cash and cash equivalents is attributable to \$718,000 of cash used in operations, payment of a cash dividend of \$258,000, \$3,000 invested in certificates of deposit and the investment of \$385,000 in new production equipment.

On June 1, 2011, the Company renewed a \$6,000,000 revolving line of credit agreement with a bank for a term of two years. The interest rate is equal to the prime rate. The line of credit requires that the Company maintain certain financial ratios. The financial covenants require the Company to maintain a quick ratio of at least 1:1, maintain a tangible net worth of \$10,000,000 and maintain a total liabilities to tangible net worth of less than 1.25:1. 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 for at least the next twelve months.

Outlook

New orders for the third quarter and year-to-date 2012 totaled \$6,374,000 and \$17,483,000, respectively, compared to \$4,040,000 and \$11,893,000 for the comparable periods of 2011. The fluctuation resulted from an increase in new orders on solid state relays and a custom optoelectronic product to the military, and one new custom medical product.

Backlog totaled \$11,354,000 on August 25, 2012 compared to \$6,231,000 on November 30, 2011 and \$7,494,000 as of August 25, 2011. The majority of the backlog is expected to be shipped in the next twelve months and represents a well-distributed mix of the company's products and technologies with 27% in the commercial market, 55% in the military market, and 18% in the space market compared to 26% in the commercial market, 51% in the military market, and 23% in the space market at August 27, 2011.

The Company's management expects sales and operating income during the fourth quarter to remain consistent with the third quarter results resulting in a decrease in sales and profit for 2012 as compared to 2011. The current economic downturn and government funding is resulting in delayed or cancelled satellite programs resulting in lower new orders for space level solid state power controllers, lower sales and lower profits.

The Company cannot assure that the results of operations for the interim period presented are indicative of total results for the entire year due to fluctuations in customer delivery schedules, or other factors over which the Company has no control.

Cautionary Statement

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The Chief Executive Officer and Chief Financial Officer of the Company evaluated the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e)) as of August 25, 2012 and, based on this evaluation, concluded that the Company's disclosure controls and procedures are functioning in an effective manner to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

(b) Changes in internal controls.

There has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting during the three month period ended August 25, 2012.

PART II - OTHER INFORMATION

ITEM 1.

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

ITEM 1A

Information about risk factors for the three months ended August 25, 2012 does not differ materially from that set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended November 30, 2011.

ITEM 2.

None

ITEM 3.

None

ITEM 4.

Not Applicable

ITEM 5.

None

ITEM 6.

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.
32.2	Certification of Chief Accounting Officer pursuant to 18 U. S. C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

MICROPAC INDUSTRIES, INC.

October 9, 2012
Date

/s/ Mark King
Mark King
Chief Executive Officer

October 9, 2012
Date

/s/ Patrick Cefalu
Patrick Cefalu
Chief Financial Officer

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