MICROPAC INDUSTRIES INC
Form 10KSB
February 10, 2006

U. S. Securities and Exchange Commission
Washington, D. C. 20549
Form 10-KSB
Dated February 10, 2006

(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, 2005

(_) 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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in any 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: $19,030,000

Based on approximately 32,578 shares publicly traded during November 2005, the aggregate market value of the voting common stock held by non-affiliates of the registrant (based on the average prices reported on the Over-the-Counter ("OTC") Bulletin Board system on November 30, 2005 was approximately $5,762,000. For purposes of such calculation, shares of Common Stock held by each executive officer and director and by each person who owns more than 5% of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)
The number of shares outstanding of the issuer's only class of common equity, as of the latest practicable date was 2,578,315 as of November 30, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated February 10, 2006 for the Annual Meeting of Shareholders to be held on March 3, 2006 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-KSB.

PART I

Item 1. Description of 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 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 NASA core supplier, and is compliant 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 540 shareholders on November 30, 2005.

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 49% of the Company's sales for the fiscal year ended November 30, 2005, and 50% in fiscal 2004; standard components are estimated to account for approximately 51% of the Company's sales for the fiscal year ended November 30, 2005, and 50% for fiscal 2004.

Micropac Industries, Inc. 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 Company's core technology is the packaging and interconnect 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
- Fiber optic components and assemblies
- High temperature (200(0) C) products

Micropac's products are primarily sold to original equipment manufacturers (OEM) 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
- Medical

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.

The Company is not currently impacted by export restrictions on sensitive technology. Five (5) 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 2005, the Company's investment in technology through research and development, which was expensed, totals approximately $531,000 ($438,000 in 2004). 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 introduced new Solid State Power Controllers (SPPC) as the next generation of solid state relays with enhanced ruggedness and voltage and current carrying capabilities. Micropac's SSPCs feature both an instantaneous over current trip as well as I^2T which compares power used over time. These devices range from 28VDC to 400VDC and from 5Amps to 40Amps. The SSPC Product Family is fully capable of being Class K screened per MIL-PRF 38534. Radiation tolerant versions of these products are also available. Micropac strives to provide the greatest power density per package volume and strives to meet the stringent efficiency requirements of customers in today's market.

In addition to the Company's investment in research and development, various customers paid the Company approximately $208,000 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 10% of the sales for fiscal year 2005 (25% in 2004) 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. In 2005 this customer, Advanced Energy Industries, Inc., accounted for 17% of international sales, and their contract manufacturer in China, Celestica, accounted for 21% of international sales. During 2005, these two customers accounted for 2% and 2% of the Company's total sales compared to 9% and 10% for the year ended November 30, 2004. Advanced Energy has been a major customer since 1996 and averaged 15% of the Company's sales during this 10 year period from a high of 20% to a low of 2%.

Sales through the Company's distribution channels were $4,672,000 in 2005 compared to $3,041,000 in 2004 or 25% and 20% of sales, respectively.

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 70% of the Company's fiscal net sales in 2005 compared to 64% in 2004.

The Company's major customers are Lockheed Martin, Northrop Grumman, Boeing, Raytheon, BAE, Honeywell, Rockwell Int'l, Newport, Advanced Energy, and St. Jude.

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, 2005, the Company had a backlog of unfilled orders totaling approximately $9,319,000 compared to approximately $9,292,000 at November 30, 2004. The Company expects to complete and ship most of its November 30, 2005 backlog during fiscal 2006.

EMPLOYEES

At November 30, 2005, the Company had 146 full-time employees (compared to 121 at November 30, 2004), of which 25 were executive and managerial employees, 31 were engineers and quality-control personnel, 20 were clerical and administrative employees, and 70 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.

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.

The hybrid microcircuits product line, including custom microcircuits, solid state relays, power operational amplifiers and regulators accounted for 36% of the Company's business in 2005, and the Optoelectronics product line accounted for 64% of the Company's business in 2005, compared to 53% and 47% in 2004. One customer, Newport, accounted for 15% of the revenue increase in the Optoelectronics product line.

There are approximately 46 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., M.S. Kennedy, Aeroflex, Agilent, Optek, and Isolink.

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. 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, Sussex Semiconductors, Semi-Dice, Accumet Eng. Corp, NTK Technologies, Electrovac, and Aborn Electronics.

CAUTIONARY STATEMENTS - RISK FACTORS

This Form 10-KSB 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 cyclicality 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 majority shareholder 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 is available for public purchase and sale. As a result the company's reported share price may be subject to extreme fluxuations 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 original equipment manufacturer (OEM) customers. In some cases, the Company 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 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 has no liability for the Mexico operations. 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. 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 or delay shipments of products

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 operation; however, the Company is not currently materially 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.

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 Ciuddad 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, 2005.

PART II

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

On November 30, 2005, there were approximately 540 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, 2005		
Fourth Quarter	$9.50	$6.60
Third Quarter	$8.00	$5.62
Second Quarter	$7.75	$5.00
First Quarter	$6.31	$3.75
Fiscal Year Ended November, 30, 2004		
Fourth Quarter	$4.20	$3.50
Third Quarter	$4.50	$3.25
Second Quarter	$3.75	$2.05
First Quarter	$2.50	$1.77

During the three (3) month period ending on November 30, 2005, approximately 109,994 shares of the Company's common stock was reportedly traded in the over-the-counter market at a reported price range of $6.60 to $9.50 per share. For the two (2) year period ending November 30, 2005, approximately 996,897 shares of the Company's common stock were reportedly traded in the over-the-counter market at prices ranging from a low of $2.05 to a high of $9.50. Due to this average monthly volume of approximately 41,537 shares of common stock being publicly bought and sold during this two year period, the Company does not believe this share trading volume represents the market value of the Company's common stock held by non-affiliates.

Our stock prices quoted on the OTC Bulletin Board represent over-the-counter market quotations and reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

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 was paid to shareholders on 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.

There are no plans to make the dividend permanent.

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 interest rate on any borrowings against this credit agreement is equal to the prime rate less 1/4%. The line of credit requires the Company to maintain certain financial ratios, including quick ratio of at least 1:1, maintain a tangible net worth of $6,250,000 plus 75% of future net income, and maintain a total liabilities-to-tangible-net-worth of less than 1.25:1. The Company is in compliance with these covenants. To date, the Company has not 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 $1,309,000 net in cash flows from operations in 2005. Cash influx came primarily from the combination of net income totaling $2,176,000; recovery of depreciation totaling $247,000, increase of accrued compensation of $202,000, increase in other accrued liabilities of $106,000, increase in accounts payable of $381,000, and a decrease in prepaid expense of $14,000. Cash was used to increase inventory $843,000, accounts receivables increased by $731,000, net deferred tax assets increased $84,000 and a decrease in income tax liabilities of $159,000. Inventories increased due to the purchase of long lead items for shipments within the first half of 2006. Day's sales in accounts receivables totaled approximately 53.0 days as of November 30, 2005, compared to 53.0 days at November 30, 2004.

The Company used $497,000 in cash for investment in additional manufacturing equipment, computers and facility improvements in 2005 compared to $182,000 in 2004.

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 was paid to shareholders on 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.

As of November 30, 2005, the Company had $1,722,000 in cash and cash equivalents and $2,527,000 in short term investments compared to $1,239,000 in cash and cash equivalents and $2,507,000 in short term investments on November 30, 2004.

Company management believes it will meet its 2006 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, 2005.

Results of Operations 2005 vs. 2004

	Three Months Ended		Twelve Months Ended	
	11/30/05	11/30/04	11/30/05	11/30/04
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	66.5%	57.1%	62.4%	65.0%
R & D	2.6%	5.3%	2.8%	2.9%
S, G, & A	17.3%	18.7%	17.0%	17.6%
Total Cost & Exp	86.4%	81.1%	82.2%	85.5%
Operating Income	13.6%	18.9%	17.8%	14.5%
Other and Interest Income	0.8%	0.3%	0.5%	0.2%
Income Before Income Taxes	14.4%	19.2%	18.3%	14.7%
Provision for taxes	5.1%	7.2%	6.9%	5.6%
Net Income	9.3%	12.0%	11.4%	9.1%

Sales in 2005 were approximately $19,030,000, an increase of 23.9% or $3,674,000 compared to 2004 sales. The increase in sales is primarily attributable to continued improved business conditions in the Company's major market segments. Increased sales from the introduction of new solid state power controller products and standard solid state relays, combined with new custom optoelectronic assemblies and increased requirements for standard optocouplers have improved the Company's performance in 2005.

The Company's management expects sales and profits to decrease in 2006, based on the completion of significant long-term contracts on custom optoelectronics assemblies, certain space product contracts, and further reduced requirements for microcircuits supplied to semiconductor equipment manufacturers.

New orders for fiscal year 2005 total $19,077,000 compared to $20,946,000 for fiscal 2004. Approximately $11,078,000 of the new orders received in 2005 was delivered to customers in 2005, along with approximately $7,981,000 of the Company's $9,292,000 ending backlog on November 30, 2004.

The Company's backlog as of November 30, 2005, was approximately $9,319,000, compared to approximately $9,292,000 on November 30, 2004.

Custom-designed components are estimated to account for approximately 49% of the

Company's sales for the fiscal year ended November 30, 2005, and 50% in fiscal 2004; standard components are estimated to account for approximately 51% of the Company's sales for the fiscal year ended November 30, 2005, and 50% for fiscal 2004.

Approximately 10% of the sales for fiscal year 2005 (25% in 2004) 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. In 2005 this customer, Advanced Energy Industries, Inc., accounted for 17% of international sales, and their contract manufacturer in China, Celestica, accounted for 21% of international sales. During 2005, these two customers accounted for 2% and 2% of the Company's total sales compared to 9% and 10% for the year ended November 30, 2004.

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 70% of the Company's fiscal net sales in 2005 compared to 64% in 2004.

During 2005 one customer, Newport accounted for 15% of the Company's sales, compared to two customers Advanced Energy and Celestica that accounted for 9% and 10% for the year ended November 30, 2004. During 2005, Advanced Energy and Celestica accounted for 2% and 2% of the Company's total sales. Advanced Energy has been a major customer since 1996 and averaged 15% of the Company's sales during this 10 year period from a high of 20% to a low of 2%.

Sales for 2005 compared to 2004 increased 3% in the commercial market, 44% in the military market, and 9% in the space market.

Cost of sales, as a percentage of net sales, was 62.4% in 2005 compared to 65.0% in 2004. The decrease of 2.6% 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 $1,898,000 for 2005, versus 2004.

Expenses for research and development total $531,000 in 2005 compared to $438,000 in 2004. Most of the research and development expenses were concentrated on expanding the company's line of solid state power controllers, detectors, hall-effect devices; and enhancing manufacturing processes to improve the Company's competitive position.

Selling, general, and administrative expenses total 17.0% of net sales in 2005, compared to 17.6% in 2004, based on higher sales. In dollars expensed, selling, general and administrative expenses totaled $3,237,000 in 2005 compared to $2,709,000 in 2004, an increase of $528,000, attributable to increased selling expense and cost associated with internal control documentation and testing.

Interest income for fiscal 2005 totaled $87,000 compared to $32,000 for fiscal 2004. The increase is related to higher interest rates on the Company's investments.

Income before taxes for fiscal 2005 was approximately $3,485,000 or 18.3% of net sales, compared to $2,265,000 or 14.7% of net sales in fiscal 2004. Net income after taxes totaled approximately $2,176,000 or $.84 per share in 2005 versus 2004 net earnings of $1,408,000 or $.55 per share. Net income after taxes increased $768,000 in 2005 compared to 2004, primarily attributable to higher gross profit margin and continued control of overhead and general and administrative expenses. One customer for custom optoelectronics assemblies accounted for approximately 25% of the net income. Based on the completion of this contract, and lower anticipated sales in 2006, the Company's management expects net income to decrease.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 153, "Exchanges of Non-monetary assets - an amendment of APB Opinion No. 29". This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. We anticipate that this pronouncement will not have a material effect on the financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment". This Statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". This Statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". The Securities and Exchange Commission has delayed the adoption requirement of SFAS No. 123R until January 1, 2006. We expect to adopt SFAS No. 123R as required. We anticipate that adoption of this Standard could have a material effect on the financial statements if the Company decided to utilize stock options to compensate employees and members of the Board of Directors.

In May 2005 the FASB issued SFAS 154 "Accounting Changes and Error Corrections". This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle and also corrections of error in previously issued financial statements. This Statement harmonizes US accounting standards with existing international accounting standards by requiring companies to report voluntary changes in accounting principles via a retrospective application, unless impracticable. Also, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. This pronouncement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005

Item 7. Financial Statements

The financial statements listed below appear on pages 19 through 26 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

Item 8A. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, which disclosed no significant deficiencies or material weaknesses, the Chief Executive Officer and Chief Financial Officer each concluded that the Company's disclosure controls and procedures are effective

PART III

In accordance with General Instruction G(3) of Form 10-K, the information required by this Part III is incorporated by reference to Micropac Industries, Inc.'s definitive proxy statement relating to its 2006 Annual Meeting of Stockholders, as set forth below. The 2006 Proxy Statement will be filed with the Securities and Exchange Commission on or about February 10, 2006.

Item 9. Directors & Executive Officers of The Registrant

The information set forth in the 2006 Proxy Statement under the headings "Election of Directors", and "Principal Stockholders and Stockholdings of Management", is incorporated herein by reference.

Name	Age	Position(s) With the Company	Director Since
H. Kent Hearn	69	Director and Member of Audit Committee	February 1983
Heinz-Werner Hempel	77	Director and Member of Audit Committee	February 1997
James K. Murphey	63	Director and Member of Audit Committee	March 1990
Nicholas Nadolsky	72	Director and Member of Audit Committee	May 2004
Connie Wood	66	Director and Member of Audit Committee, Former CEO and President	May 2002
Mark King	51	Director, CEO, President and Member of Audit Committee	October 2005
Patrick Cefalu	48	CFO, Vice President	

Mr. Hearn is currently employed as a stockbroker by Milkie/Ferguson Investments, Inc. Mr. Hearn was formerly employed by Harris Securities, Dallas, Texas.

Mr. Hempel is the Chief Operating Officer of Hanseatische Waren-Gesellschaft MBH & Co, KG, Bremen Germany.

Mr. Murphey is an attorney and member of the law firm Glast, Phillips & Murray, P.C. in Dallas, Texas. Glast, Phillips & Murray, P.C. serves as legal counsel to the company. Prior to 2001, Mr. Murphey was a member of the law firm of Secore & Waller, L.L.P. in Dallas, Texas.

Mr. Nadolsky served as the Company's Chief Executive Officer and Chairman of the Board until his medical leave of absence beginning May 2002. Mr. Nadolsky retired from the Company in May 2004.

Mrs. Wood is the former Chief Executive Officer and President of the Company, having retired in October 2005, and serving as a full-time consultant until December 31, 2005. Mrs. Wood was elected as Chief Executive Officer in May 2002. Prior to May 2002, Mrs. Wood was President and Chief Operating Officer of the

Company.

Mr. King is the Chief Executive Officer and President of the Company. Prior to November 2002, Mr. King was President and Chief Operating Officer of Lucas Benning Power Electronics. Mr. King joined the company in November of 2002 as the Chief Operating Officer and was elected as Chief Executive Officer, President and Board Member in October 2005.

Mr. Cefalu is the Chief Financial Officer and Vice President of the Company. Mr. Cefalu joined the Company in July of 2001 and was elected as Chief Financial Officer in February of 2002. Prior to July 2002, Mr. Cefalu held numerous senior financial positions at Lucent Technologies.

The Company has adopted a Code of Ethics for Principal Executive Officers and Senior Financial Officers, pursuant to the Sarbanes-Oxley Act of 2002. The Code of Ethics is published on the Company's web site, www.micropac.com on the Investor page.

The Board of Directors does not have a nominating or compensation committee or committees performing similar functions. The Board of Directors formed an Audit Committee on May 13, 2002. The members of the Audit Committee are the members of the Board of Directors.

The Board of Directors has discussed with management and the independent auditors the quality and adequacy of the Company's internal controls. The Directors have considered and reviewed with the independent auditors their audit plans, the scope of the audit, and the identification of audit risks.

The Board of Directors has reviewed the Company's audited financial statements for the fiscal year ended November 30, 2005, and discussed them with management and the Company's independent auditors. Management has the responsibility for the preparation and integrity of the Company's financial statements and the independent auditors have the responsibility for the audit of those statements. Based on this and discussions with management and the independent auditors, the Board of Directors has recommended that the Company's audited financial statements be included in its Annual Report on Form 10-KSB for the fiscal year ended November 30, 2005, for filing with the Securities and Exchange Commission. It is not the duty of the Directors to plan or conduct audits, to determine that the Company's financial statements are complete and accurate and are in accordance with accounting principles generally accepted in the United States. Those responsibilities belong to management and the Company's independent auditors. In giving its recommendations, the Directors considered (a) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States, and (b) the report of the Company's independent auditors with respect to such financial statements.

The Board of Directors has received and reviewed written disclosures and a letter from the independent accountants required by the Independence Standards Board Standard No. 1, entitled "Independence Discussions with Audit Committee," as amended to date, and has discussed with the independent accountants their independence from management.

The Board of Directors held nine (9) board meetings during the year ended November 2005. Directors receive a fee of $500.00 for each meeting.

The Audit Committee held four (4) meetings during the year ended November 30, 2005. Members of the Audit Committee received a fee of $500.00 for each meeting.

With the exception of Mr. Hearn, members of the Audit Committee are not considered as independent members under applicable United States statutes.

The Board of Directors has evaluated the credentials of Nicholas Nadolsky, and has determined that Mr. Nadolsky is an "audit committee financial expert" within the meaning of 401(e) of Regulation S-B.

The Board does not have a nominating committee due to the Company's small size. The Board does not provide a process for security holders to send communications to the Board of Directors due to the infrequent nature of such communications.

Item 10. Executive Compensation

The information set forth in the 2006 Proxy Statement under the heading "Management Remuneration and Transactions", is incorporated herein by reference.

The following table shows as of November 30, 2005, all cash compensation paid to, or accrued and vested for the account of Ms. Connie Wood, Past President and Chief Executive Officer, Mr. Mark King, President and Chief Executive Officer and Mr. Patrick Cefalu, Vice President and Chief Financial Officer. Mrs. Wood, Mr. King and Mr. Cefalu received no non-cash compensation during 2005.

The company does not have any equity compensation plans.

		Annual Compensation			
Name and Principal Position	Year	Annual Salary	Bonus	Other Annual Compensation (a)	All Other Compensation (b)
Connie Wood,	2005	$183,294.58	$14,500	$6,500	$23,693.18
Past President and	2004	$172,394.28	$10,000	$6,000	$27,194.25
Chief Executive	2003	$156,000.00	-0-	-0-	$18,490.51
Officer (1)					
Mark King,	2005	$163,395.50	$14,500	$500	$13,383.62
President and	2004	$155,333.82	$ 2,000	-0-	$10,225.38
Chief Executive Officer	2003	$150,000.00	-0-	-0-	$6,467.79
Patrick Cefalu,	2005	$ 90,906.21	$14,500	-0-	$10,749.07
Vice President and					
Chief Financial Officer (2)					

(a) Reflects fees for Board meetings and Audit Committee meetings

(b) Reflects amounts contributed by Micropac Industries, Inc., under Micropac's 401(k) profit sharing plan; unused vacation pay; and reimbursement for medical expenses under Micropac's Family Medical Reimbursement Plan.

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(1) Effective May 1, 2002, the Company and Connie Wood entered into a two (2) year employment agreement at an annual salary of $156,000. The employment agreement was amended effective May 1, 2004 to increase Mrs. Wood's salary to $180,000 and to extend the term for a period of three years from said date. Mrs. Wood retired as President and CEO effective October 12, 2005, and has remained as a full-time consultant until December 31, 2005.

(2) Mr. Cefalu joined the Company in July 2001; however, total compensation is not reported before fiscal year 2005, as annual salary and bonus did not exceed $100,000.

Amounts included in other annual compensations relating to director and audit committee fees

The Board of Directors held nine (9) board meetings during the year ended November 2004. Directors receive a fee of $500.00 for each meeting. Mrs. Wood received fees of $4,500 and Mr. King received fees of $500 which amount is included in the "Other Annual Compensation" column.

The Audit Committee held four (4) meetings during the year ended November 30, 2005. Members of the Audit Committee received a fee of $500.00 for each meeting. Mrs. Wood received Audit Committee fees of $2,000 which amount is included in the "Other Annual Compensation" column.

Amount included in all other compensation relating to employee benefit plans

The Company maintains a Family Medical Reimbursement Plan for the benefit of its executive officers and their dependents. The Plan is funded through a group insurance policy issued by an independent carrier and provides for reimbursement of 100% of all bona fide medical and dental expenses that are not covered by other medical insurance plans. During the fiscal year ended November 30, 2005, Mrs. Wood received $11,875.20, Mr. King received $2,656.24 and Mr. Cefalu received $7,863.45 which amounts are included in the "All Other Compensation" column shown in the preceding remuneration table.

In July 1984, the Company adopted a Salary Reduction Plan pursuant to Section 401(k) of the Internal Revenue Code. The Plan's benefits are available to all Company employees who are at least 18 years of age and have completed at least six months of service to the Company as of the beginning of a Plan year. Plan participants may elect to defer up to 15% of their total compensation as their contributions, subject to the maximum allowed by the Internal Revenue code 401(k), and the Company matches their contributions up to a maximum of 6% of their total compensation. A participant's benefits vest to the extent of 20% after two years of eligible service and become fully vested at the end of six years.

During the fiscal year ended November 30, 2005, the Company made contributions to the Plan for Mrs. Wood in the amount of $11,817.83 and for Mr. King in the amount of $10,727.38, which amounts are included in the "All Other Compensation" column shown in the preceding remuneration table.

Employment agreements of the Company's officers provides that they may elect to carry over any unused vacation time to subsequent periods or elect to be paid for such unused vacation time. In 2005, Mr. Cefalu elected to be paid for all prior unused vacation time in the amount of $2,885.62, which is included in the "All Other Compensation" column shown in the preceding remuneration table.

On January 15, 2001, the Board of Directors adopted the Micropac Industries, Inc. 2001 Employee Stock Option Plan. To date, no options have been granted under the Plan.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The information set forth in the 2006 Proxy Statement under the heading "Principal Stockholders and Stockholdings of Management" is incorporated herein by reference.

The following table shows the number and percentage of shares of the Company's common stock beneficially owned (a) by each person known by the Company to own 5% or more of the outstanding common stock, (b) by each director and nominee, and (c) by all present officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class(1)
Heinz-Werner Hempel (2)(3) Hanseatische Waren-Gesellschaft MBH & Co., KG Am Wall 127 28195 Bremen 1 Germany	1,952,577	75.7%
H. Kent Hearn (3) 1409 Briar Hollow Garland, Texas 75043	3,500	Less than .2
James K. Murphey (3) 2290 One Galleria Tower 13355 Noel Road, L.B.75	-0-	-

Dallas, Texas 75240		
Nicholas Nadolsky (3) 1322 Briar Hollow Garland, Texas 75043	-0-	-
Connie Wood (3) 106 Cedarview Rockwall, Texas 75087	6,000	Less than .2%
Mark King(3) 2905 Wyndham Lane Richardson, Texas 75082	-0-	-
Patrick Cefalu 8706 Arborside Rowlett, Texas 75089	-0-	-
All officers and directors as a group (7 Persons)	1,962,077	76.1%

(1) Calculated on the basis of the 2,578,315 outstanding shares. There are no options, warrants, or convertible securities outstanding.

(2) The Company and Mr. Heinz-Werner Hempel are parties to an Ancillary Agreement entered into in March 1987. The Ancillary Agreement primarily obligates the Company to register Mr. Hempel's stock and allows Mr. Hempel to participate in any sale of stock by the Company.

(3) A director of the Company. Each incumbent director has been nominated for re-election at the Annual Meeting.

Item 12. Certain Relationships and Related Transactions

The information set forth in the 2006 Proxy Statement under the heading "Management Remuneration and Transactions" is incorporated herein by reference.

Since 1980, the Company has leased a 4,800 square-foot building from Mr. Nadolsky which is used primarily for manufacturing. The lease originally provided for a monthly rental of $1,900 (an amount based upon a January 1984, independent appraisal of the building's value) and was to have expired on January 1, 1987. Since 1987, the Company has extended the term of this lease from time to time. The rental paid to Mr. Nadolsky pursuant to this lease was $40,000 for the fiscal year ended November 30, 2005. In April 2004, the lease was renewed for three (3) years at the same rental rate provided for in the previous lease subject to increase based upon increases in the Consumer Price Index.

Item 13. Principal Accountant Fees and Services

The information set forth in the 2006 Proxy Statement under the heading "Independent Public Accountants" and "Audit Fees" is incorporated herein by reference.

KPMG LLP was selected as the independent accountants in 2002 and has been responsible for the Company's financial audit for the fiscal years ended November 30, 2002 through November 30, 2005.

Management anticipates that a representative from KPMG LLP will be present at the Annual Meeting and will be given the opportunity to make a statement if he or she desires to do so. It is also anticipated that such representative will be available to respond to appropriate questions from stockholders.

KPMG LLP fees for professional services for the audit of the Company's financial statements for 2005 and the review of the interim financial statements included in the Quarterly Reports is $96,700.

In addition to the audit fees, KPMG LLP fees for tax advisory and 2005 tax return preparation services will be $24,500.

Item 14. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Supplier Contract - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.2 Loan Agreement - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.3 Employment Contract Of Chief Executive Officer - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.4 Employment Contract of Chief Financial Officer - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.5 Employment Contract of Chief Operating Officer - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.6 Code of Conduct for Officers - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.7 Agreement with Mr. Nicholas Nodalsky - incorporated by reference to the Registrant's 10KSB/A filed on August 23, 2005

10.8 Agreement with Mr. Hempel - incorporated by reference to the Registrant's 10KSB/A filed on November 22, 2005

10.9 Micropac Industries, Inc. 2001 Employee Stock Option Plan -incorporated by reference to the Registrant's Form S-8 (File No. 333-67560), filed August 16, 2001

10.10 Consent of Independent Third Party on Stock Purchase - incorporated by reference to the Registrant's 10KSB/A filed on November 22, 2005

10.11 Employment Contract Of Chief Executive Officer

31.1 Certification of Chief Executive Officer pursuant to

Section 302 of the Sarbanes- Oxley Act of 2004

31.2 Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2004

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 2004.

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 2004.

(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 was paid to shareholders on 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 $40,000.

Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers. Ms. Connie Wood, Chief Executive Officer of Micropac Industries, Inc., has retired effective October 12, 2005 after more than 36 years of service. Ms. Wood, 66, remained with the Company on a consulting basis through the end of the year, and will continue to serve on the Board of Directors. The Board of Directors elected Mr. Mark King, 51, as President and Chief Executive Officer to succeed Mrs. Wood effective October 12, 2005. In, addition, Mr. King was elected as a director and a member of the audit committee. Mr. King has been an Executive Vice President and Chief Operating Officer of Micropac Industries, Inc. since November 2002.

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: /s/ Mark King

Mark King, President
and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Patrick Cefalu

Patrick Cefalu, CFO and
Principal Accounting Officer

Dated: 02/08/2006

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 02/10/2006

/s/ Connie Wood	/s/ H. Kent Hearn
Connie Wood, Director	H. Kent Hearn, Director
/s/ James K. Murphey	/s/ Heinz-Werner Hempel
James K. Murphey, Director	Heinz-Werner Hempel, Director
/s/ Nicholas Nadolsky	/s/ Mark King
Nicholas Nadolsky, Director	Mark King, 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, 2005 and 2004, and the related statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ending November 30, 2005. 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, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the two-year period ending November 30, 2005 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas,
January 27, 2006

MICROPAC INDUSTRIES, INC.

BALANCE SHEETS
NOVEMBER 30, 2005 AND 2004
(Dollars in thousands except share data)

ASSETS

	2005	2004

CURRENT ASSETS:		
Cash and cash equivalents	$ 1,722	$ 1,239
Short-term investments	2,527	2,507
Receivables, net of allowance for doubtful accounts of $89 for 2005 and $121 for 2004	3,057	2,326
Inventories		
Raw materials and supplies	1,825	1,354
Work-in-process	1,718	1,346
Total inventories	3,543	2,700
Deferred income taxes	614	528
Prepaid expenses and other assets	76	90
Total current assets	11,539	9,390
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	796	796
Machinery and equipment	5,689	5,200
Furniture and fixtures	487	479
Total property, plant, and equipment	7,550	7,053
Less- accumulated depreciation	(6,338)	(6,091)
Net property, plant, and equipment	1,212	962
Total assets	$ 12,751	$ 10,352

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 768	$ 387
Accrued compensation	690	488
Accrued professional fees	28	11
Income taxes payable	147	306
Property taxes	54	66
Commissions payable	52	46
Deferred revenue	499	404
Other accrued liabilities	17	17
Total current liabilities	2,255	1,725
DEFERRED INCOME TAXES	74	72
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, 2005 and November 30, 2004	308	308
Paid-in capital	885	885
Treasury stock, at cost, 500,000 shares	(1,250)	(1,250)
Retained earnings	10,479	8,612
Total shareholders' equity	10,422	8,555

Total liabilities and shareholders' equity	$ 12,751	$ 10,352

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED NOVEMBER 30,
2005 AND 2004 (Dollars in
thousands except share data)

	2005	2004
NET SALES	$ 19,030	$ 15,356
COSTS AND EXPENSES:		
Cost of sales	11,874	9,976
Research and development	531	438
Selling, general, and administrative expenses	3,237	2,709
Total costs and expenses	15,642	13,123
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	3,388	2,233
Other income	10	--
Interest income	87	32
INCOME BEFORE INCOME TAXES	3,485	2,265
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	1,393	996
Deferred	(84)	(139)
Total provision for current and deferred taxes	1,309	857
NET INCOME	$ 2,176	$ 1,408
BASIC AND DILUTED EARNINGS PER SHARE	$ .84	$ .55
WEIGHTED AVERAGE NUMBER OF SHARES, basic and diluted	2,578,315	2,578,315

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004
(Dollars in thousands)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Total
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
Dividend	--	--	--	(309)	(309)
Net income	--	--	--	2,176	2,176
BALANCE, November 30, 2005	$ 308	$ 885	$ (1,250)	$ 10,479	$ 10,422

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004
(Dollars in thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,176	$ 1,408
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	247	222
Deferred tax benefit	(84)	(139)
Changes in certain current assets and liabilities-		
Increase in receivables, net	(731)	(449)
Increase in inventories	(843)	(911)
Decrease (increase) in prepaid expenses and other assets	14	(19)
Increase in accounts payable	381	79
Increase in accrued compensation	202	249
(Decrease) increase in income taxes payable	(159)	196
Increase in all other accrued liabilities	106	272
Net cash provided by operating activities	1,309	908
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(20)	(1,695)
Additions to property, plant, and equipment	(497)	(182)
Net cash used in investing activities	(517)	(1,877)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(309)	(129)
Net cash used in financing activities	(309)	(129)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	483	(1,098)
CASH AND CASH EQUIVALENTS, beginning of year	1,239	2,337
CASH AND CASH EQUIVALENTS, end of year	$ 1,722	$ 1,239
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for income taxes, net of refunds received	$ 1,552	$ 803

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005 AND 2004

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. Sales are recorded net of sales returns, allowances and discounts.

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, 2005 and 2004. 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, 2004. 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 2005 and 2004, 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:

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 interest rate on any borrowings against this credit agreement is equal to the prime rate less 1/4%. The line of credit requires the Company to maintain certain financial ratios, including quick ratio of at least 1:1, maintain a tangible net worth of $6,250,000 plus 75% of future net income, and maintain a total liabilities-to-tangible-net-worth of less than 1.25:1. The Company is in compliance with these covenants. The Company has not, to date, used any of the available line of credit.

4. RELATED PARTIES:

The Company leases a building from the Company's Chairman of the Board of Directors. 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 $40,000 in 2005 and $39,000 in 2004.

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 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 must be independent, due to their relationships with the Company. The Board of Directors held nine (9) board meetings during the year ended November 30, 2005. Directors receive a fee of $500.00 for each meeting. The Audit Committee held four (4) meetings during the year ended November 30, 2005. Members of the Audit Committee received a fee of $500.00 for each meeting.

5. PRODUCT WARRANTIES:

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Currently, the only applicable item of FIN 45 relates to the impact of paragraph 14, which refers to product warranties.

Because the Company does not have extended warranties, the exposure is limited to product returns for defective products. In general, the Company warrants that the products, when delivered, will be free from defects in material workmanship under normal use and service. The obligations are limited to replacing, repairing or giving credit for, at the option of the Company, any products that are returned within one year after the date of shipment.

The Company reserves for potential warranty expense based on historical warranty experience claims. While management considers the process to be adequate to effectively quantify its exposure to warranty claims based on historical performance, changes in warranty claims on a specific or cumulative basis may require management to adjust its reserve for potential warranty costs.

Warranty expense to repair or replace products in 2005 and 2004, was $38,600 and $33,600 respectively.

6. LEASE COMMITMENTS:

Rent expenses for the years ended November 30, 2005 and 2004, was approximately $44,000 and $45,000 respectively per year. The Company's future minimum lease payments under non-cancellable 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:

2006		$ 40,000
2007		$ 20,000
	Total	$ 60,000

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 $178,000 in 2005 and $131,000 in 2004. 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

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 153, "Exchanges of Non-monetary assets - an amendment of APB Opinion No. 29". This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. We anticipate that this pronouncement will not have a material effect on the financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment". This Statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". This Statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". The Securities and Exchange Commission has delayed the adoption requirement of SFAS No. 123R until January 1, 2006. We expect to adopt SFAS No. 123R as required. We anticipate that adoption of this Standard may have a material effect on the financial statements if the Company decided to utilize stock options to compensate employees and members of the Board of Directors.

In May 2005 the FASB issued SFAS 154 "Accounting Changes and Error Corrections". This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle and also corrections of error in previously issued financial statements. This Statement harmonizes US accounting standards with existing international accounting standards by requiring companies to report voluntary changes in accounting principles via a retrospective application, unless impracticable. Also, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. This pronouncement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005

9. INCOME TAXES:

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

	2005	2004
Current Provision:		
Federal	$ 1,200,000	$ 854,000
State	193,000	142,000
	1,393,000	996,000
Deferred Benefit:		
Federal	(84,000)	(139,000)
Total	$ 1,309,000	$ 857,000

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

	2005	2004
Tax at 34% statutory rate	$ 1,185,000	$ 770,000
State income taxes, net of federal benefit	119,000	82,000
Permanent differences and other	5,000	5,000

Income tax provision	$ 1,309,000	$ 857,000

The components of deferred tax assets and liabilities were as follows:

	November 30, 2005	November 30, 2004
Current Deferred Taxes -		
Allowance for doubtful accounts	$ 33,000	$ 45,000
Inventory	319,000	280,000
Accrued liabilities and other	262,000	203,000
Net current deferred tax asset	$ 614,000	$ 528,000
Non-current Deferred Taxes Liability		
Depreciation and other	$ 74,000	$ 72,000
Net deferred taxes	$ 540,000	$ 456,000

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 70% of total sales in 2005 and 64% of total sales in 2004. During 2005 one customer, Newport, accounted for 15% of the Company's sales, compared to two customers, Advanced Energy and Celestica, that accounted for 9% and 10% of the Company's sales for the year ended November 30, 2004. During 2005, Advanced Energy and Celestica accounted for 2% and 2% of the Company's total sales. Advanced Energy has been a major customer since 1996 and averaged 15% of the Company's sales during this 10 year period from a high of 20% to a low of 2%.

11. SHAREHOLDERS' EQUITY:

On November 30, 2005, there were approximately 540 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 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 was paid to shareholders on February

8, 2005.

On March 1, 2001, the Company's shareholders approved the 2001 Employee Stock Option Plan (the "Stock Plan"). As of November 30, 2005, there were 500,000 options available to be granted; however, no options had been granted at year-end.

12. SUBSEQUENT EVENTS

On December 22, 2005, the Board of Directors of Micropac Industries, Inc. approved the payment of a $.15 per share dividend to all shareholders of record on February 3, 2006. The dividend payment will be paid to shareholders on or about February 10, 2006.

DIRECTORS AND OFFICERS

NOVEMBER 30, 2005

NICHOLAS NADOLSKY
Chairman of the Board
Micropac Industries, Inc

CONNIE WOOD
Retired 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.

MARK KING
Chief Executive Officer
Micropac Industries, Inc.

PATRICK CEFALU
Chief Financial Officer
Micropac Industries, Inc.

LEGAL COUNSEL	TRANSFER AGENT & REGISTRAR
Glast, Phillips and Murray	Securities Transfer
Dallas, Tx	Frisco, Texas