

MICROPAC INDUSTRIES INC
Form 10-Q
October 15, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2013
OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-5109

MICROPAC INDUSTRIES, INC.

Delaware
(State of Incorporation) 75-1225149
(IRS Employer Identification No.)

905 E. Walnut, Garland, Texas
(Address of Principal Executive Office) 75040
(Zip Code)

Registrant's Telephone Number, including Area Code (972) 272-3571

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No x

On October 15, 2013 there were 2,578,315 shares of Common Stock, \$.10 par value outstanding.

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MICROPAC INDUSTRIES, INC.

FORM 10-Q

August 31, 2013

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

ASSETS

CURRENT ASSETS	08/31/13 (Unaudited)	11/30/12
Cash and cash equivalents	\$8,704	\$7,415
Short-term investment	2,006	2,004
Receivables, net of allowance for doubtful accounts of \$2 at August 31, 2013 and \$2 at November 30, 2012	2,564	2,498
Inventories:		
Raw materials	2,752	3,601
Work-in process	2,923	2,384
Total inventories	5,675	5,985
Deferred income taxes	563	659
Prepaid income tax	166	349
Prepaid expenses and other assets	198	121
Total current assets	19,876	19,031
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	1,074	1,074
Machinery and equipment	8,104	7,914
Furniture and fixtures	677	677
Total property, plant, and equipment	10,433	10,243
Less accumulated depreciation	(8,457)	(8,220)
Net property, plant, and equipment	1,976	2,023
 Total assets	 \$21,852	 \$21,054

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$360	\$501
Accrued compensation	505	511
Deferred revenue	531	189
Other accrued liabilities	200	215
Income taxes payable	61	112
Total current liabilities	1,657	1,528
 DEFERRED INCOME TAXES	 510	 471

SHAREHOLDERS' EQUITY

Common stock, (\$.10 par value), authorized 10,000,000 shares, 3,078,315 issued and 2,578,315 outstanding at August 31, 2013 and November 30, 2012	308	308
Paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	19,742	19,112
Total shareholders' equity	19,685	19,055
Total liabilities and shareholders' equity	\$21,852	\$21,054

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Dollars in thousands except share data)
(Unaudited)

	Three months ended		Nine months ended	
	08/31/13	08/25/12	08/31/13	08/25/12
NET SALES	\$4,508	\$4,632	\$14,239	\$12,444
COST AND EXPENSES:				
Cost of goods sold	(2,712)	(2,952)	(8,756)	(8,611)
Research and development	(380)	(168)	(1,153)	(371)
Selling, general & administrative expenses	(986)	(976)	(2,965)	(2,791)
Total cost and expenses	(4,078)	(4,096)	(12,874)	(11,773)
OPERATING INCOME	430	536	1,365	671
Interest and other income	21	21	22	27
INCOME BEFORE TAXES	\$451	\$557	\$1,387	\$698
Provision for taxes	(162)	(200)	(499)	(251)
NET INCOME	\$289	\$357	\$888	\$447
NET INCOME PER SHARE, BASIC AND DILUTED	\$.11	\$.14	\$.34	\$.17
DIVIDENDS PER SHARE	\$-	\$-	\$.10	\$.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	
	8/31/13	8/25/12
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 888	\$ 447
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	237	240
Deferred tax expense	135	104
Changes in certain current assets and liabilities		
Decrease (increase) in accounts receivable	(66)	(620)
Decrease (increase) in inventories	310	(700)
Decrease (increase) in prepaid expense and other current assets	106	(53)
Increase (decrease) in deferred revenue	342	(170)
(Decrease) increase in accounts payable	(141)	504
Decrease in accrued compensation	(6)	(120)
Decrease in other accrued liabilities	(15)	(289)
Decrease in income taxes payable	(51)	(61)
Net cash provided by (used in) operating activities	1,739	(718)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short term investments	(2)	(3)
Additions to property, plant and equipment	(190)	(385)
Net cash used in investing activities	(192)	(388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
Net cash used in financing activities	(258)	(258)
Net change in cash and cash equivalents	1,289	(1,364)
Cash and cash equivalents at beginning of period	7,415	8,488
Cash and cash equivalents at end of period	\$ 8,704	\$ 7,124
Supplemental Cash Flow Disclosure:		
Cash paid for income taxes	\$ 232	\$ 75

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 controllers, 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 National Aeronautics and Space Administration (NASA) core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification. The Company has UL approval on the new industrial power controllers.

The Company's core technology is the packaging and interconnecting of multi-chip microelectronics modules. 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 31, 2013, the results of operations for the three months and nine months ended August 31, 2013 and August 25, 2012, and the cash flows for nine months ended August 31, 2013 and August 25, 2012. Unaudited financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to the rules and regulations promulgated by the Securities and Exchange Commission. However, management believes that the disclosures contained are adequate to make the information presented not misleading.

Note 2 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 \$2,006,000 in short term investments at August 31, 2013. Short-term investments consist of certificates of deposits with initial maturities greater than 90 days. These investments are reported at historical cost, which approximates fair value. All highly liquid investments with initial 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 and processes are expensed as incurred.

Note 3 FAIR VALUE MEASUREMENT

The Company had no financial assets or liabilities measured at fair value on a recurring basis as of August 31, 2013 and November 30, 2012. 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 31, 2013 and November 30, 2012.

Note 4 COMMITMENTS

On January 23, 2013, the Company entered into a Loan Agreement with a Texas banking institution. The Loan Agreement replaces the Company's revolving line of credit with the Texas banking institution entered into on June 1,

2011. The Loan Agreement provides for revolving credit loans, in amounts not to exceed a total principal balance of \$6,000,000, and specific advance loans for acquisitions with an aggregate amount not to exceed \$7,500,000 in a single advance or in multiple advances. The Loan Agreement also contains financial covenants to maintain at all times including (i) minimum working capital of not less than \$4,000,000, (ii) a ratio of senior funded debt, minus the Company's balance sheet cash on hand to the extent in excess of \$2,000,000, to EBITDA of not more than 3.0 to 1.0, and (iii) a ratio of free cash flow to debt service of not less than 1.2 to 1.0. The Company has not, to date, drawn any amounts under the loan agreement or the revolving line of credit and is currently in compliance with the financial covenants.

Note 5 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 31, 2013 and August 25, 2012, the Company had no dilutive potential common stock.

Note 6 SHAREHOLDERS' EQUITY

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.

On December 12, 2012, the Board of Directors of Micropac Industries, Inc. approved the payment of a \$.10 per share special dividend to all shareholders of record as of January 15, 2013. The dividend was paid to shareholders on February 12, 2013.

Note 7 SUBSEQUENT EVENTS

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

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 controllers, 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 National Aeronautics and Space Administration (NASA) core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification. The Company has UL approval on the new industrial power controllers.

The Company's core technology is the packaging and interconnecting of multi-chip microelectronics modules. 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	
	8/31/2013	8/25/2012	8/31/2013	8/25/2012
NET SALES	100.0	% 100.0	% 100.0	% 100.0
COST AND EXPENSES:				
Cost of Goods Sold	60.2	% 63.7	% 61.5	% 69.2
Research and development	8.4	% 3.6	% 8.1	% 3.0
Selling, general & administrative expenses	21.9	% 21.1	% 20.8	% 22.4
Total cost and expenses	90.5	% 88.4	% 90.4	% 94.6
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	9.5	% 11.6	% 9.6	% 5.4
Interest income	0.5	% 0.4	% 0.1	% 0.2
INCOME BEFORE TAXES	10.0	% 12.0	% 9.7	% 5.6
Provision for taxes	3.6	% 4.3	% 3.5	% 2.0
NET INCOME	6.4	% 7.7	% 6.2	% 3.6

Sales for the three and nine month periods ended August 31, 2013 totaled \$4,508,000 and \$14,239,000, respectively. Sales for the third quarter decreased \$124,000 compared to the same period of 2012, while sales for the first nine months of 2013 increased \$1,795,000 or 14.4% above the first nine months of 2012. Sales were 28% in the

commercial market, 54% in the military market, and 18% in the space market for the nine months ended August 31, 2013 compared to 25% in the commercial market, 60% in the military market, and 15% in the space market for the nine months ended August 25, 2012.

The major increase in sales was associated with a new order for a custom medical sensor product and an increase in sales of various standard solid state relay products. The Company's management expects sales and operating income to increase in the fourth quarter of 2013 as compared to 2012, based on the current backlog.

One customer accounted for 10% of the Company's sales for the three months ended August 31, 2013 and no customer accounted for 10% or more of the Company's sales for the nine months ended August 31, 2013. Two customers accounted for 15% and 10% of the Company's sales for the three months ended August 25, 2012, respectively, and two customers accounted for 11% and 12% of the Company's sales for the nine months ended August 25, 2012.

Cost of goods sold for the third quarters of 2013 and 2012 totaled 60.2% and 63.7% of net sales, respectively, while cost of goods sold for the nine months ended August 31, 2013 and August 25, 2012 totaled 61.5% and 69.2% of net sales, respectively. The decrease in cost of goods sold as a percentage of sales is attributable to changes in product mix resulting in higher material cost and lower manufacturing overhead cost. In actual dollars, cost of goods sold increased \$145,000 for the first nine months of 2013 as compared to the same periods in 2012 with an increase in material cost of \$781,000 offset by a decrease of \$636,000 in overhead and other cost.

Research and development expense increased \$212,000 for the third quarter of 2013 versus 2012 and increased \$782,000 for the first nine months of 2013 compared to the same period of 2012. The research and development expenditures were associated with continued development of power management and control products and high voltage optocouplers to be sold to various existing or new customers. The Company plans to continue investing in the development of these and other new products and processes.

Selling, general and administrative expense for the third quarter and first nine months of 2013 totaled 21.9% and 20.8% of net sales, respectively, compared to 21.1% and 22.4% for the same periods in 2012. In actual dollars, selling, general and administrative expense increased \$10,000 for the third quarter and increased \$174,000 for the first nine months of 2013 compared to the same periods in 2012. The major increase was in selling expenses associated with higher commission expenses with the higher sales and outside consulting fees.

Provisions for taxes decreased \$38,000 for the third quarter and increased \$248,000 for the first nine months of 2013 compared to the same periods in 2012. The effective tax rate was 36% for all periods presented during 2013 and 2012.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$8,704,000 as of August 31, 2013 compared to \$7,415,000 on November 30, 2012, an increase of \$1,289,000. The increase in cash and cash equivalents is attributable to \$1,739,000 of cash provided from operations, offset by a payment of a cash dividend of \$258,000, \$2,000 invested in certificates of deposit and the investment of \$190,000 in new production equipment. The Company's short term investments totaled \$2,006,000 as of August 31, 2013.

On January 23, 2013, the Company entered into a Loan Agreement with a Texas banking institution. The Loan Agreement replaces the Company's revolving line of credit with the Texas banking institution entered into on June 1, 2011. The Loan Agreement provides for revolving credit loans, in amounts not to exceed a total principal balance of \$6,000,000, and specific advance loans for acquisitions to the Company with an aggregate amount not to exceed \$7,500,000 in a single advance or in multiple advances. The Loan Agreement also contains financial covenants to maintain at all times including (i) minimum working capital of not less than \$4,000,000, (ii) a ratio of senior funded debt, minus the Company's balance sheet cash on hand to the extent in excess of \$2,000,000, to EBITDA of not more than 3.0 to 1.0, and (iii) a ratio of free cash flow to debt service of not less than 1.2 to 1.0. The Company has not, to date, drawn any amounts under the loan agreement or the revolving line of credit and is currently in compliance with the financial covenants.

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 2013 totaled \$7,844,000 and \$17,570,000, respectively, compared to \$6,374,000 and \$17,483,000 for the comparable periods of 2012. The fluctuation resulted from an increase in new orders for a custom optoelectronic product to the military.

Backlog totaled \$13,184,000 on August 31, 2013 compared to \$9,850,000 on November 30, 2012 and \$11,354,000 as of August 25, 2012. 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 11% in the commercial market, 62% in the military market, and 27% in the space market compared to 27% in the commercial market, 55% in the military market, and 18% in the space market at August 25, 2012.

The Company's management expects sales and operating income to increase in the fourth quarter of 2013 as compared to 2012, based on the current backlog.

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 31, 2013 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 31, 2013.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A RISK FACTORS

Information about risk factors for the three months ended August 31, 2013 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, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(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

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 15, 2013

Date

/s/ Mark King
Mark King
Chief Executive Officer

October 15, 2013

Date

/s/ Patrick Cefalu
Patrick Cefalu
Chief Financial Officer

