

MICROPAC INDUSTRIES INC
Form 10-Q
October 10, 2017

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 26, 2017

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

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10-Q

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
o No x

On October 10, 2017 there were 2,578,315 shares of Common Stock, \$0.10 par value outstanding.

MICROPAC INDUSTRIES, INC.

FORM 10-Q

August 26, 2017

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Condensed Balance Sheets as of August 26, 2017 (unaudited) and November 30, 2016
Condensed Statements of Operations for the three and nine months ended August 26, 2017 and
August 27, 2016 (unaudited)
Condensed Statements of Cash Flows for the nine months ended August 26, 2017 and August 27,
2016 (unaudited)
Notes to Condensed Financial Statements (unaudited)

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4 - CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

ITEM 1A - RISK FACTORS

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

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

ITEM 4 - MINE SAFETY DISCLOSURE

ITEM 5 - OTHER INFORMATION

ITEM 6 - EXHIBITS

SIGNATURES

2

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MICROPAC INDUSTRIES, INC.****CONDENSED BALANCE SHEETS**

(Dollars in thousands, except share data)

ASSETS

CURRENT ASSETS	08/26/17	11/30/16
	(Unaudited)	
Cash and cash equivalents	\$ 10,397	\$10,012
Short-term investments	2,025	2,014
Receivables, net of allowance for doubtful accounts of		
	1,987	2,177
\$0 at August 26, 2017 and November 30, 2016		
Inventories:		
Raw materials and supplies	3,785	4,179
Work-in process	2,829	3,438
Total inventories	6,614	7,617
Prepaid income tax	434	521
Prepaid expenses and other assets	260	152
Total current assets	21,717	22,493
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	80	80
Buildings	498	498
Facility improvements	1,109	1,109
Furniture and fixtures	939	669
Construction in process equipment	441	401
Machinery and equipment	8,663	8,565
Total property, plant, and equipment	11,729	11,322
Less accumulated depreciation	(9,353)	(9,136)
Net property, plant, and equipment	2,376	2,186
 Deferred income taxes	267	273
	\$ 24,360	\$24,952
Total assets		

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 458	\$612
Accrued compensation	510	454
Deferred revenue	423	1,282
Property taxes	61	94
Other accrued liabilities	76	98
Total current liabilities	1,528	2,540

SHAREHOLDERS' EQUITY

Common stock, \$.10 par value, authorized 10,000,000		
shares, 3,078,315 issued and 2,578,315 outstanding at	308	308
August 26, 2017 and November 30, 2016		
Additional paid-in capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	22,889	22,469
Total shareholders' equity	22,832	22,412
Total liabilities and shareholders' equity	\$ 24,360	\$24,952

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.**CONDENSED STATEMENTS OF OPERATIONS**

(Dollars in thousands except share data)

(Unaudited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	08/26/17	08/27/16	08/26/17	08/27/16
NET SALES	\$4,717	\$3,804	\$13,591	\$13,120
COST AND EXPENSES:				
Cost of goods sold	(2,952)	(2,697)	(8,526)	(8,779)
Research and development	(413)	(359)	(1,305)	(907)
Selling, general & administrative expenses	(1,034)	(970)	(3,006)	(3,060)
Total cost and expenses	(4,399)	(4,026)	(12,837)	(12,746)
OPERATING INCOME (LOSS)	318	(222)	754	374
Other income	19	16	23	22
Interest income (expense), net	8	(1)	10	(1)
INCOME (LOSS) BEFORE TAXES	\$345	\$(207)	\$787	\$395
Benefit (provision) for taxes	32	66	(109)	(126)
NET INCOME (LOSS)	\$377	\$(141)	\$678	\$269
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED	\$0.15	\$(0.05)	\$0.26	\$0.10
DIVIDENDS PER SHARE	\$—	\$—	\$0.10	\$0.10
WEIGHTED AVERAGE OF SHARES, basic and diluted	2,578,315	2,578,315	2,578,315	2,578,315

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.**CONDENSED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

	Nine months ended	
	8/26/17	8/27/16
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$678	\$269
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	217	218
Deferred tax expense	6	165
Changes in certain current assets and liabilities		
Accounts receivable	190	558
Inventories	1,003	(429)
Prepaid expenses and other current assets	(108)	(16)
Prepaid income taxes	87	(284)
Deferred revenue	(859)	(1,292)
Accounts payable	(154)	392
Accrued compensation	56	(164)
Other accrued liabilities	(55)	(105)
Income taxes payable	—	(47)
Net cash provided by (used in) operating activities	1,061	(735)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of short term investments	4,036	4,014
Purchase of short term investments	(4,047)	(4,021)
Additions to property, plant and equipment	(407)	(203)
Net cash used in investing activities	(418)	(210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
Net cash used in financing activities	(258)	(258)
Net change in cash and cash equivalents	385	(1,203)
Cash and cash equivalents at beginning of period	10,012	12,651

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10-Q

Cash and cash equivalents at end of period	\$10,397	\$11,448
Supplemental Cash Flow Disclosure:		
Cash paid for income taxes	\$17	\$350

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.

NOTES TO CONDENSED 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 (200° C) products.

In the opinion of management, the unaudited condensed financial statements include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position as of August 26, 2017, the results of operations for the three months and nine months ended August 26, 2017 and August 27, 2016, and the cash flows for the nine months ended August 26, 2017 and August 27, 2016. The unaudited condensed financial statements are prepared on a basis substantially consistent with those audited for the year ended November 30, 2016. 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. The Company’s fiscal year ends on the last day of November. The quarterly results end on the last Saturday of the quarter.

It is suggested that these financial statements be read in conjunction with the November 30, 2016 Form 10-K filed with the SEC, including the audited financial statements and the accompanying notes thereto.

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

Sales 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 sales when four basic criteria are met: (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) collectability is reasonably assured.

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

Short-Term Investments

The Company has \$2,025,000 in short term investments at August 26, 2017. 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 determines the need to write inventory down below its cost via an analysis 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.

The Company follows the guidance of Accounting Standards Codification ("ASC") Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return.

Income tax expense attributable to income from operations for 2017 differed from the amount computed by applying the U.S. federal income tax rate of 34% to income before income taxes primarily as a result of federal R&D tax credits.

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 when events or circumstances indicate that an asset may be impaired. 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 NEW ACCOUNTING PRONOUNCEMENTS

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. On July 9, 2015, the FASB agreed to defer the effective date to annual reporting periods beginning after December 15, 2017 and the interim periods within that year. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. The standard will be effective for the Company for fiscal year November 30, 2019.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The ASU requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. We early adopted this guidance as of December 1, 2016. Our adoption of this guidance did not have a material impact on our consolidated financial statements. We reclassified \$417 thousand of noncurrent deferred tax liability from noncurrent liability to reduce the carrying value of deferred tax assets as of November 30, 2016 to conform to current financial statement presentation.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU eliminates from GAAP the requirement to measure inventory at the lower of cost or market. Market under the previous requirement could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Entities within scope of this update will now be required to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory using LIFO or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted, and should be applied prospectively. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). Under the new standard, lessees will be required to recognize lease assets and liabilities for all leases, with certain exceptions, on their balance sheets. Public business entities are required to adopt the standard for reporting periods beginning after December 15, 2018. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Note 4 FAIR VALUE MEASUREMENT

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 other financial assets and nonfinancial assets measured at fair value on a nonrecurring basis at August 26, 2017 and November 30, 2016.

Note 5 COMMITMENTS

On April 23, 2016, the Company renewed the Loan Agreement with a Texas banking institution. The Loan Agreement provides for revolving credit loans, in amounts not to exceed a total principal balance of \$6,000,000. 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 revolving line of credit and is currently in compliance with the financial covenants.

Note 6 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 gives effect to all dilutive potential common shares. For the three and nine months ended August 26, 2017 and August 27, 2016, the Company had no dilutive potential common stock.

Note 7 SHAREHOLDERS' EQUITY

On December 15, 2015, 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 12, 2016. The dividend was paid to shareholders on February 11, 2016.

On December 13, 2016, 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 10, 2017. The dividend was paid to shareholders on February 9, 2017.

Note 7 SUBSEQUENT EVENT

On August 30, 2017, Micropac Industries, Inc., announced that the Company has purchased land in Garland, Texas for approximately \$1.4 million.

Micropac Industries, Inc. has been a long-standing business located in Garland, Texas for over 50 years and is located in three existing buildings. With the purchase of this tract of land, it is the intent of the Company to consolidate the three existing buildings into a new manufacturing center in the future.

MICROPAC INDUSTRIES, INC.

(Unaudited)

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. 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 (200° C) products. The Company's products are either custom (being application specific circuits designed and manufactured to meet the particular requirements of a single customer) or standard, proprietary components such as catalog items.

The Company's facilities are certified and qualified by Defense Logistics Agency (DLA) to MIL-PRF-38534 (class K-space level), MIL-PRF-19500 JANS (space level), and MIL-PRF-28750 (class K-space level) and is certified to ISO 9001-2002. Micropac is a NASA core supplier, and is registered to AS9100-Aerospace Industry standard for supplier certification. The Company has UL approval on the new isolated solid state industrial power controllers.

The Company's core technology is the packaging and interconnecting of miniature electronic components, utilizing thick 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

Results of Operations

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>8/26/2017</u>	<u>8/27/2016</u>	<u>8/26/2017</u>	<u>8/27/2016</u>
NET SALES	100.0%	100.0%	100.0%	100.0%

Edgar Filing: MICROPAC INDUSTRIES INC - Form 10-Q

COST AND EXPENSES:				
Cost of Goods Sold	62.6%	70.9%	62.7%	66.9%
Research and development	8.8%	9.4%	9.6%	6.9%
Selling, general & administrative expenses	<u>21.9%</u>	<u>25.5%</u>	<u>22.1%</u>	<u>23.3%</u>
Total cost and expenses	93.3%	105.8%	94.4%	97.1%
OPERATING INCOME (LOSS) BEFORE INTEREST				
AND INCOME TAXES	6.7%	(5.8)%	5.6%	2.9%
Interest and other income				
	<u>0.6%</u>	<u>0.4%</u>	<u>0.2%</u>	<u>0.1%</u>
INCOME (LOSS) BEFORE TAXES				
	7.3%	(5.4)%	5.8%	3.0%
Benefit (provision) for taxes				
	<u>(.7)%</u>	<u>(1.7)%</u>	<u>.8%</u>	<u>1.0%</u>
NET INCOME (LOSS)				
	<u>8.0%</u>	<u>(3.7)%</u>	<u>5.0%</u>	<u>2.0%</u>

Sales for the three and nine month periods ended August 26, 2017 totaled \$4,717,000 and \$13,591,000, respectively. Sales for the third quarter increased 24% or \$913,000 above sales for the same period of 2016, while sales for the first nine months of 2017 increased \$471,000 above the first nine months of 2016 with an increase in various power management products and a reduction in one custom sensor product. Sales were 10% in the commercial market, 65% in the military market, and 25% in the space market for the nine months ended August 26, 2017 compared to 16% in the commercial market, 56% in the military market, and 28% in the space market for the nine months ended August 27, 2016.

Three customers accounted for 17%, 15% and 13% of the Company's sales for the three months ended August 26, 2017 and three customers accounted for 17%, 13% and 12% of the Company's sales for the nine months ended August 26, 2017, while one customer accounted for 15% of the Company's sales for the three months ended August 27, 2016, and two customers accounted for 20% and 12% of the Company's sales for the nine months ended August 27, 2016.

Cost of goods sold for the third quarters of 2017 and 2016 totaled 62.6% and 70.9% of net sales, respectively, while cost of goods sold for the nine months ended August 26, 2017 and August 27, 2016 totaled 62.7% and 66.9% of net sales, respectively. In actual dollars, cost of goods sold increased \$255,000 in the third quarter of 2017 compared to the same period of 2016. Year to date cost of goods sold decreased \$253,000 for the first nine months of 2017 as compared to the same periods in 2016. The decrease is associated with a reduction in non-recurring engineering cost supporting a customer funded project.

Research and development expense increased \$54,000 for the third quarter of 2017 versus 2016 and increased \$399,000 for the first nine months of 2017 compared to the same period of 2016. The increase in research and development expense is associated with an increase in internal development cost with a reduction in non-recurring engineering customer funded projects from 2016. The research and development expenditures were associated with continued development of several power management products, fiber optic transceivers and high voltage optocouplers. The Company will continue to invest in research and development of these products and other new opportunities.

Selling, general and administrative expense for the third quarter and first nine months of 2017 totaled 21.9% and 22.1% respectively of net sales compared to 25.5% and 23.3% for the same periods in 2016. In actual dollars, selling, general and administrative expense increased \$64,000 for the third quarter and decreased \$54,000 for the first nine months of 2017 compared to the same periods in 2016.

Provisions for taxes benefit decreased \$34,000 for the third quarter of 2017 and the provision for tax expense decreased \$18,000 for the first nine months of 2017 compared to the same period in 2016. The estimated effective tax rate was 14% for 2017 and 32% for 2016. During 2017, the Company had a Research and Development tax credit study performed for fiscal 2013, 2014, 2015, and 2016 by a third party with tax year 2012 and 2015 completed in the third quarter of 2017. The Company filed an amended tax return for 2012 reflecting a R&D tax credits of approximately \$77,000. In addition, the Company had a \$66,000 R&D tax credit on the tax return for 2015 (fiscal year 2016) filed in 2017.

Net income increased \$518,000 for the third quarter of 2017 versus 2016 and increased \$410,000 for the first nine months of 2017 compared to the same period of 2016.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$10,397,000 as of August 26, 2017 compared to \$10,012,000 on November 30, 2016, a increase of \$385,000. The increase in cash and cash equivalents is primarily attributable to a cash flow from operations of \$1,061,000 offset by the payment of a cash dividend of \$258,000 and the investment of \$228,000 in equipment and \$179,000 in a new ERP system.

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.

The one year specific advance loan for acquisitions with an aggregate amount not to exceed \$7,500,000 in a single advance or in multiple advances was not renewed on April 22, 2017. The revolving credit loan in amounts not to exceed a total principal balance of \$6,000,000 was renewed on April 23, 2016 for a two year term.

Outlook

New orders for year-to-date 2017 totaled \$8,412,000 compared to \$11,961,000 for 2016. The decrease resulted from lower orders on various standard solid state relay products and a delay in one custom sensor order. The decrease was primarily due to the de-booking of one large international order for solid state power products. This order was originally booked in November 2015 for \$2,836,550. This order was removed from the backlog as a result of not receiving the down payment required to start the fabrication along with the uncertainties of the international market. As a result, no cost were incurred for this order.

Backlog totaled \$11,924,000 on August 26, 2017 compared to \$17,765,000 as of August 27, 2016 and \$17,102,000 on November 30, 2016. The backlog represents a good mix of the company's products and technologies with 17% in the commercial market, 54% in the military market, and 29% in the space market compared to 13% in the commercial market, 44% in the military market, and 43% in the space market on August 27, 2016.

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. Approximately \$1,800,000 of the Company's backlog is dependent on these semiconductors.

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 Rule 13a-15) as of August 26, 2017 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 26, 2017.

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 and nine months ended August 26, 2017 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, 2016.

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 10, 2017

Date /s/ Mark King
Mark King
Chief Executive Officer

October 10, 2017

Date /s/ Patrick Cefalu
Patrick Cefalu
Chief Financial Officer

