SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 29, 2020

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	75-1225149
(State of Incorporation)	(IRS Employer Identification No.)
905 E. Walnut, Garland, Texas	75040
(Address of Principal Executive Office)	(Zip Code)

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

Securities Registered Pursuant to Section 12(g) of the Act: common stock, par value $0.10.

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes [X] No [ ]

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

Large accelerated filer [ ]	Emerging growth company [ ]
Accelerated filer [ ]	Smaller reporting company [X]
Non-accelerated filer [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 13, 2020 there were 2,578,315 shares of Common Stock, $0.10 par value, outstanding.

MICROPAC INDUSTRIES, INC.

FORM 10-Q

August 29, 2020

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	08/29/2020 (Unaudited)	11/30/2019
CURRENT ASSETS		
Cash and cash equivalents	$ 14,342	$ 13,890
Short-term investments		2,089
Receivables, net of allowance for doubtful accounts of $0 at August 29, 2020 and November 30, 2019	3,461	3,382
Contract assets	606	519
Inventories:		
Raw materials and supplies	6,358	4,427
Work-in process	2,624	2,616
Total inventories	8,982	7,403
Prepaid tax assets	223	
Prepaid expenses and other assets	389	572
Total current assets	28,003	27,495
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	1,518	1,518
Buildings	498	498
Facility improvements	1,109	1,109
Furniture and fixtures	1,016	977
Construction in process equipment	862	645
Machinery and equipment	9,059	9,027
Total property, plant, and equipment	14,062	13,774
Less accumulated depreciation	(10,326)	(10,125)
Net property, plant, and equipment	3,736	3,649
Operating lease right to use asset	129	
Total assets	$ 31,868	$ 31,144
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 984	$ 851
Accrued compensation	870	1,287
Deferred revenue	186	390
Property taxes	85	104
Income tax	232	213
Current portion of operating lease liabilities	12	
Other accrued liabilities	62	26
Total current liabilities	2,431	2,871
Operating lease liabilities	117	
Deferred income taxes, net	15	20
Total liabilities	2,563	2,891
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Common stock, $.10 par value, authorized 10,000,000 shares, 3,078,315 issued and 2,578,315 outstanding at August 29, 2020 and November 30, 2019	308	308
Additional paid-in-capital	885	885
Treasury stock, 500,000 shares, at cost	(1,250)	(1,250)
Retained earnings	29,362	28,310
Total shareholders equity	29,305	28,253
Total liabilities and shareholders equity	$ 31,868	$ 31,144

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	
	08/29/2020	**08/24/2019**	**08/29/2020**	**08/24/2019**
NET SALES	$ 4,926	$ 7,252	$ 16,760	$ 17,966
COST AND EXPENSES:				
Cost of goods sold	(3,115)	(4,042)	(9,982)	(10,138)
Research and development	(306)	(428)	(1,192)	(1,260)
Selling, general & administrative expenses	(1,342)	(1,440)	(4,076)	(4,045)
Total cost and expenses	(4,763)	(5,910)	(15,250)	(15,443)
OPERATING INCOME	163	1,342	1,510	2,523
Other income, net	1	39	27	87
INCOME BEFORE TAXES	164	$ 1,381	1,537	$ 2,610
Provision for taxes	35	193	227	365
NET INCOME	$ 129	$ 1,188	$ 1,310	$ 2,245
NET INCOME PER SHARE, BASIC AND DILUTED	$ 0.05	$ 0.46	$ 0.51	$ 0.87
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	
	8/29/2020	**8/24/2019**
CASH FLOWS FROM OPERATING ACTIVITES:		
Net income	$ 1,310	$ 2,245
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities:		
Depreciation	285	281
Loss on disposal of equipment	23	
Change in right of use of asset	24	
Deferred tax	(5)	
Changes in certain current assets and liabilities		
Accounts receivable	(79)	380
Contract Assets	(87)	(307)
Inventories	(1,939)	(24)
Prepaid expense and other current assets	183	(74)
Prepaid income taxes	(223)	328
Deferred revenue	(204)	(706)
Accounts payable	133	256
Income taxes	19	
Lease liabilities	(24)	
Accrued compensation	(417)	201
Other accrued liabilities	17	(114)
Net cash (used in) provided by operating activities	(984)	2,466
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of short term investments	2,089	4,138
Purchase of short term investments		(4,161)
Additions to property, plant and equipment	(395)	(211)
Net cash provided by (used in) investing activities	1,694	(234)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend	(258)	(258)
Proceeds from short term debt	1,924	
Repayment of short term debt	(1,924)	
Net cash used in financing activities	(258)	(258)
Net change in cash and cash equivalents	452	1,974
Cash and cash equivalents at beginning of period	13,890	10,483
Cash and cash equivalents at end of period	$ 14,342	$ 12,457
Supplemental Cash Flow Disclosure:		
Cash paid for income taxes	$ 436	$ 36

See accompanying notes to financial statements.

MICROPAC INDUSTRIES, INC.
STATEMENTS OF SHAREHOLDERS EQUITY
FOR THE QUARTERS ENDED AUGUST 29, 2020 AND AUGUST 24, 2019
(Dollars in thousands)
(Unaudited)

	Common Stock	Additional paid-in-capital	Treasury Stock	Retained Earnings	Total
BALANCE, November 30, 2018	$ 308	$ 885	($ 1,250)	$ 24,800	$ 24,743
Impact of change in accounting policy				55	55
Dividend				(258)	(258)
Net loss				(194)	(194)
BALANCE, February 23, 2019	$ 308	$ 885	($ 1,250)	$ 24,403	$ 24,346
Dividend					
Net income				1,251	1,251
BALANCE, May 25, 2019	$ 308	$ 885	($ 1,250)	$ 25,654	$ 25,597
Dividend					
Net income				1,188	1,188
BALANCE, August 24, 2019	$ 308	$ 885	($ 1,250)	$ 26,842	$ 26,785
BALANCE, November 30, 2019	$ 308	$ 885	($ 1,250)	$ 28,310	$ 28,253
Dividend				(258)	(258)
Net income				692	692
BALANCE, February 29, 2020	$ 308	$ 885	($ 1,250)	$ 28,744	$ 28,687
Dividend					
Net income				489	489
BALANCE, May 30, 2020	$ 308	$ 885	($ 1,250)	$ 29,233	$ 29,176
Dividend					
Net income				129	129
BALANCE, August 29, 2020	$ 308	$ 885	($ 1,250)	$ 29,362	$ 29,305

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, designs, manufactures and distributes various types of microelectronic circuits including solid state relays and power controllers, optoelectronic components, and sensor and display components and assemblies. The Company s products are used as components and assemblies in a broad range of military, space and industrial systems, including aircraft instrumentation and navigation systems, satellite systems, power supplies, electronic controls, computers, medical devices, and high-temperature (200^{o} C) products.

The Company s facilities are certified and qualified by the Defense Logistics Agency (DLA) to MIL-PRF-38534 (class K-space level) and MIL-PRF-19500 JANS (space level) and are certified to ISO 9001:2008 and AS 9100D. 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 Underwriters Laboratories (UL) approval on our industrial power controllers.

The Company s core technology is microelectronic and optoelectronic designs to include 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, and electronic integration used in the Company s optoelectronic components and assemblies.

The business of the Company 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 438 shareholders on August 29, 2020.

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 29, 2020, the results of operations for the three and nine months ended August 29, 2020 and August 24, 2019, and the cash flows for the nine months ended August 29, 2020 and August 24, 2019 including the statement of shareholders equity. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) 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, 2019 Form 10-K filed with the SEC, including the audited financial statements and the accompanying notes thereto.

Impact of COVID-19 on our Business

The impact of the COVID-19 pandemic continues to unfold. The extent of the pandemic s effect on our operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any confidence the likely impact of the COVID-19 pandemic on our future operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations."

Note 2 SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The core principle of revenue recognition under GAAP is that the Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company s revenue on the majority of its customer contracts are recognized at a point in time, generally upon shipment of products.

To achieve that core principle, the Company applies the following steps:

1. Identify the contract(s) with a customer.

The Company designs, manufactures and distributes various types of microelectronic circuits, optoelectronics, and sensors and displays. The Company s products are used as components and assemblies in a broad range of military, space and industrial systems, including aircraft instrumentation and navigation systems, satellite systems, power supplies, electronic controls, computers, medical devices, and high-temperature (200° C) products.

The Company s revenues are from purchase orders and/or contracts with customers associated with manufacture of products. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

2. Identify the performance obligations in the contract.

The majority of the Company s purchase orders or contracts with customers contain a single performance obligation, the shipment of products.

3. Determine the transaction price.

The transaction price reflects the Company s expectations about the consideration it will be entitled to receive from the customer at a fixed price per unit shipped based on the terms of the contract or purchase order with the customer. To the extent our actual costs vary from the fixed price that was negotiated, we will generate more or less profit or could incur a loss.

4. Allocate the transaction price to the performance obligations in the contract.

The Company transaction price is the fixed price per unit per each delivery upon shipment.

5. Recognize revenue when (or as) the Company satisfies a performance obligation.
This performance obligation is satisfied when control of the product is transferred to the customer, which occurs upon shipment or delivery. The Company receives purchase orders for products to be delivered over multiple dates that may extend across reporting periods. The Company accounting policy treats shipping and handling activities as a fulfillment cost. The Company invoices for each delivery upon shipment and recognizes revenues at the fixed price for each distinct product delivered when transfer of control has occurred, which is generally upon shipment.

For certain contracts under which the Company produces products with no alternative use and for which the Company has an enforceable right to payment during the production cycle, the Company recognizes revenue for the cost incurred of work in process plus a margin at the end of each period and records a contract asset (unbilled receivable). The majority of these products are shipped weekly and monthly to the customer and the contract require us to manage and limit the level of work in process to meet the scheduled delivery dates.

In addition, the Company may have a contract or purchase order to provide a non-recurring engineering service to a customer. These contracts are reviewed and performance obligations are determined and we recognize revenue at the point in time in which each performance obligation is fully satisfied.

Disaggregation of Revenue

The following table summarizes the Company s net sales by product line.

	8/29/2020	8/24/2019
Microcircuits	$ 5,488	$ 5,660
Optoelectronics	4,222	4,730
Sensors and Displays	7,050	7,576
	$ 16,760	$ 17,966
Timing of revenue recognition		
Transferred at a point in time	$ 16,154	$ 17,414
Transferred over time	606	552
Total Revenue	$ 16,760	$ 17,966

The following table summarizes the Company s net sales by major market.

2020 Third Quarter Sales by Major Market

	Military	Space	Medical	Commercial	Total
Domestic Direct	$ 2,789	$ 261	$ 404	$ 148	$ 3,602
Domestic Distribution	881	2	15	131	$ 1,109
International	72	123	0	20	$ 215
	$ 3,742	$ 466	$ 419	$ 299	$ 4,926

2019 Third Quarter Sales by Major Market

	Military	Space	Medical	Commercial	Total
Domestic Direct	$ 1,810	$ 727	$ 1,067	$ 552	$ 4,156
Domestic Distribution	2,240	5	0	113	$ 2,358
International	87	596	0	55	$ 738
	$ 4,136	$ 1,328	$ 1,067	$ 720	$ 7,252

2020 Nine months Sales by Major Market

	Military	Space	Medical	Commercial	Total
Domestic Direct	$ 5,411	$ 1,509	$ 2,216	$ 641	$ 9,780
Domestic Distribution	5,444	84	28	409	$ 5,965
International	377	581		57	$ 1,015
	$ 11,233	$ 2,174	$ 2,246	$ 1,107	$ 16,670

2019 Nine months Sales by Major Market

	Military	Space	Medical	Commercial	Total
Domestic Direct	$ 4,789	$ 1,291	$ 2,842	$ 1,228	$ 10,150
Domestic Distribution	5,156	134		366	$ 5,656
International	290	1,668		202	$ 2,160
	$ 10,235	$ 3,093	$ 2,842	$ 1,795	$ 17,966

Receivables, net, Contract Assets and Contract Liabilities

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

Receivables, net, contract assets and contract liabilities were as follows:

	August 29, 2020	November 30, 2019
Receivables, net	$ 3,461	$ 3,382
Contract assets	$ 606	$ 519
Deferred Revenue	$ 186	$ 390

Revenue recognized in 2020 that was included in the deferred revenue liability balance at the beginning of the year was $204,000.

Contract costs

The Company does not have material incremental costs to obtain a contract in the form of sales commissions or bonuses. The Company incurs other immaterial costs to obtain and fulfill a contract; however, the Company has elected the practical expedient under ASC 340-40-24-4 to recognize all incremental costs to obtain a contract as an expense when incurred if the amortization period is one year or less.

Short-Term Investments

The Company has no short-term investments at August 29, 2020. Short-term investments consist of certificates of deposits with maturities greater than 90 days. These investments are reported at historical cost, which approximates fair value. All highly liquid investments with maturities of 90 days or less are classified as cash equivalents.

Inventories

Inventories are stated at lower of cost or net realizable 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 to the lower of cost or net realizable value 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 records a liability for an unrecognized tax benefit for a tax position that is not more-likely-than-not” to be sustained. The Company did not record any liability for uncertain tax positions as of August 20, 2020 and November 30, 2019.

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 in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 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 lives of property, plant, and equipment are capitalized.

Research and Development Costs

Costs for the design and development of new products are expensed as incurred.

Leases

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 adopted in the first quarter of 2020 and had no material impact on its consolidated financial statements. The Company adopted ASC 842 using the modified retrospective transition method; and therefore, the comparative information has not been adjusted for the nine months ended August 24, 2019 or as of November 30, 2019. Upon transition to the new standard, the Company elected the package of practical expedients, which permitted the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs.

In the first quarter of 2020, the Company entered into a three (3) year lease extension on the property that has been leased on a year to year basis. As a result, we recognized $165,000 for operating lease liabilities and right-of-use assets upon adoption of ASC 842. The Company had an operating lease expense of $36,000 for the first nine months of 2020. The Company used an estimated incremental borrowing rate of 3.25% representative of the rate of interest that the company would have to pay to borrow on the Company s line of credit. The remaining lease term is three years.

The undiscounted future minimum lease payments consist of the following at:

		8/29/2020
2020	$	12,000
2021		53,000
2022		55,000
2023		14,000
Total lease payments		134,000
Interest		5,000
Present value of lease liabilities	$	129,000

Note 3 NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. The ASU requires the use of an expected loss"model for instruments measured at amortized cost, in which companies will be required to estimate the lifetime expected credit loss and record an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial asset. The new guidance is effective for fiscal years beginning after December 15, 2022 for Smaller Reporting Companies, including interim periods within those fiscal years and requires a modified-retrospective approach to adoption. The Company believes that adopting ASU 2016-13 will have no material impact on the financial statements and related disclosures.

Note 4 FAIR VALUE MEASUREMENT

The Company had no financial assets or liabilities measured at fair value on a recurring basis as of August 29, 2020 and November 30, 2019. 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 29, 2020 and November 30, 2019.

Note 5 COMMITMENTS

On August 29, 2019, 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 with a rate equal to prime rate. 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. The Company has not received any indication that borrowing under the Loan Agreement may be restricted due to COVID-19 uncertainties. The agreement termination date is April 23, 2021.

On April 17, 2020, Micropac Industries, Inc. (the Company) obtained an unsecured $1,924,400 loan under the Paycheck Protection Program (the PPP Loan). The Paycheck Protection Program (or PPP) was established under the recently congressionally-approved Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and is administered by the U.S. Small Business Administration. The PPP Loan to the Company is being made through Frost Bank, the Company s existing lender (the Lender).

Based upon updated guidance issued April 23, 2020 by the Federal Government including a presumption that no publicly traded companies with sources of liquidity are eligible for a PPP loan, the Company returned the loan proceeds within the time period imposed under these new guidelines and paid off the loan on May 4, 2020.

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 29, 2020 and August 24, 2019, the Company had no dilutive potential common stock instruments.

Note 7 SHAREHOLDERS EQUITY

On December 11, 2018, the Board of Directors of Micropac Industries, Inc. approved the payment of a $0.10 per share special dividend to all shareholders of record as of January 9, 2019. The dividend was paid to shareholders on February 8, 2019.

On December 10, 2019, the Board of Directors of Micropac Industries, Inc. approved the payment of a $0.10 per share special dividend to all shareholders of record as of January 8, 2020. The dividend was paid to shareholders on February 14, 2020.

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MICROPAC INDUSTRIES, INC.
(Unaudited)

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

Business

Micropac Industries, Inc. (the Company”), a Delaware corporation, designs, manufactures and distributes various types of microelectronic circuits including solid state relays and power controllers, optoelectronic components, and sensor and display components and assemblies. The Company s products are used as components and assemblies in a broad range of military, space and industrial systems, including aircraft instrumentation and navigation systems, satellite systems, power supplies, electronic controls, computers, medical devices, and high-temperature (200^{o} C) products.

The Company s facilities are certified and qualified by the Defense Logistics Agency (DLA) to MIL-PRF-38534 (class K-space level) and MIL-PRF-19500 JANS (space level) and are certified to ISO 9001:2008 and AS 9100D. 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 Underwriters Laboratories (UL) approval on our industrial power controllers.

The Company s core technology is microelectronic and optoelectronic designs to include 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, and electronic integration used in the Company s optoelectronic components and assemblies.

Results of Operations

	Three months ended		Nine months ended	
	8/29/2020	8/24/2019	8/29/2020	8/24/2019
NET SALES	100.0%	100.0%	100.0%	100.0%
COST AND EXPENSES:				
Cost of Goods Sold	63.0%	55.7%	59.6%	56.4%
Research and development	6.2%	5.9%	7.1%	7.0%
Selling, general & administrative expenses	27.2%	19.9%	24.3%	22.5%
Total cost and expenses	96.4%	81.5%	91.1%	86.0%
OPERATING INCOME BEFORE INTEREST AND INCOME TAXES	3.4%	18.5%	9.0%	14.0%
Interest and other income	0.1%	0.5%	0.2%	0.5%
INCOME BEFORE TAXES	3.3%	19.0%	9.2%	14.5%
Provision for taxes	.7%	2.3%	1.4%	1.9%
NET INCOME	2.6%	16.7%	7.8%	12.6%

Sales for the three and nine month periods ended August 29, 2020 totaled $4,926,000 and $16,760,000, respectively. Sales for the third quarter decreased $2,326,000 from the same period of 2019, while sales for the first nine months of 2020 decreased $1,206,000 from the first nine months of 2019. The majority of the decrease in sales in the third quarter were due to timing of shipments of $8,268,000 of backlog from customers on custom sensor products and a decrease in sales of space level solid state relays compared to the third quarter of 2019. Sales were 7% in the commercial market, 13% in the medical market, 67% in the military market, and 13% in the space market for the nine months ended August 29, 2020 compared to 10% in the commercial market, 17% in the medical market, 57% in the military market, and 16% in the space market for the nine months ended August 24, 2019.

One customer accounted for 20% of the Company s sales for the three months ended August 29, 2020 and two customers accounted for 13% and 10% of the Company s sales for the nine months ended August 29, 2020, while one customer accounted for 20% of the Company s sales for the three months ended August 24, 2019, and the same customer accounted for 20% of the Company s sales for the nine months ended August 24, 2019.

Cost of goods sold for the third quarter of 2020 and 2019 totaled 63.0% and 55.7% of net sales, respectively, while cost of goods sold for the nine months ended August 29, 2020 and August 24, 2019 totaled 59.6% and 56.4% of net sales, respectively. In actual dollars, cost of goods sold decreased $927,000 in the third quarter of 2020 compared to the same period of 2019. Year to date cost of goods sold decreased $156,000 for the first nine months of 2020 as compared to the same period in 2019. The delay in shipments of custom products, lower sales of space level solid state relays with traditional higher margins, and approximately $250,000 associated with COVID-19 production down time resulted in lower overall gross margin.

Research and development expense decreased $122,000 for the third quarter of 2020 versus 2019 and decreased $68,000 for the first nine months of 2020 compared to the same period of 2019. 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 2020 totaled 27.2% and 24.3% respectively of net sales compared to 19.9% and 22.5% for the same periods in 2019. In actual dollars, selling, general and administrative expense decreased $98,000 for the third quarter and increased $31,000 for the first nine months of 2020 compared to the same periods in 2019. The majority of the increase for the first nine months resulted from the addition on business development staff at the end of 2019.

Provisions for taxes decreased $158,000 for the third quarter of 2020 and increased $128,000 for the first nine months of 2020 compared to the same period in 2019. The estimated effective tax rate was 14% for 2020 and for 2019.

Net income decreased $1,059,000 for the third quarter of 2020 versus 2019 and decreased $935,000 for the first nine months of 2020 compared to the same period of 2019.

Liquidity and Capital Resources

Cash and cash equivalents totaled $14,342,000 as of August 29, 2020 compared to $13,890,000 on November 30, 2019, an increase of $452,000. The increase in cash and cash equivalents is primarily attributable to a net use of cash flow from operations of $984,000, and payment of a cash dividend of $258,000, and offset by proceeds for the sales of investments of $2,089,000 and $395,000 invested in equipment.

In addition to cash on hand, the Company also has the ability to borrow under a loan agreement as discussed in Note 5 to the condensed financial statements.

Outlook

New orders for year-to-date 2020 totaled $23,930,000 compared to $20,857,000 for 2019.

Backlog totaled $29,237,000 on August 29, 2020 compared to $20,241,000 as of August 24, 2019 and $22,021,000 on November 30, 2019. The backlog represents a good mix of the company s products and technologies with 11% in the commercial market, 11% in the medical market, 66% in the military market, and 12% in the space market compared to 15% in the commercial market, 9% in the medical market, 64% in the military market, and 12% in the space market on August 24, 2019.

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.

Impact of COVID-19 on our Business

The spread of the COVID-19 virus during the first half of 2020 has caused an economic downturn on a global scale, as well as significant volatility in the financial markets. In March 2020 the World Health Organization declared the spread of the COVID-19 virus a pandemic. As of August 29, 2020, the Company s operations have been impacted due to the practices described below. The Company cannot at this time predict the impact that the COVID-19 pandemic will have on its financial condition and operations, although we are continuing to monitor our supply chain and orders from customers for COVID-19 pandemic related changes. In this time of uncertainty as a result of the COVID-19 pandemic, we are continuing to serve our customers while taking precautions to provide a safe work environment for our employees and customers. We have been staggering some shifts and otherwise adjusting work schedules to maximize our capacity while adhering to recommended precautions such as social distancing. We have established and implemented a work from home provision where possible. We may have to take further actions that we determine are in the best interests of our employees or as required by federal, state, or local authorities.

We experienced one confirmed case of COVID-19, which caused us to shut down our Garland facility for a few days to thoroughly clean the facility and address employee concerns. Production in the Garland facility has been impacted, although we are not able to quantify the impact at this time. Our maquiladora contractor in Mexico was shut down during April and May but reopened as of mid-June at limited capacity due to local restrictions in that area. We have relocated some of that production to our Garland facility. We are working with our customers to meet their current requirements and believe that our customers have not incurred any major impact related to our position in their supply chain as of the date of this filing. The combined impact of reduced production in the Garland facility as well as stopped production from Mexico has impacted our cost of production by an estimated 2% to 4% in the third quarter of 2020 due to overhead cost that could not be allocated to work in process. While the current impacts of COVID-19 are reflected in our results of operations, we cannot at this time separate the direct COVID-19 impacts from other factors that cause our performance to vary from year to year.

The impact of the COVID-19 pandemic continues to unfold. The extent of the pandemic s effect on our operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any confidence the likely impact of the COVID-19 pandemic on our future operations.

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: our expectations regarding the potential impacts on our operations of the COVID-19 pandemic; our expectations regarding the potential impacts on our supply chain and on our customers of the COVID-19 pandemic; overall changes in governmental spending for military and space programs; 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 does not intend 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 29, 2020 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 29, 2020.

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

The following risk is in addition to those risks set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended November 30, 2019.

Impact of COVID-19 pandemic on our Business

The COVID-19 pandemic presents increased risk to Micropac, its suppliers, and its customers. We are not able to predict the impact of this risk at this time, as the COVID-19 pandemic continues to unfold. The extent of the pandemic s effect on our operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any confidence the likely impact of the COVID-19 pandemic on our future operations.

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.

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 13, 2020	/s/ Mark King
Date	Mark King Chief Executive Officer
October 13, 2020	/s/ Patrick Cefalu
Date	Patrick Cefalu Chief Financial Officer