

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
May 13, 2013

**UNITED STATES  
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 period ended March 30, 2013  
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to

Commission file number 0-16088

**CPS TECHNOLOGIES CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Delaware 04-2832509  
(State or Other Jurisdiction (I.R.S. Employer  
of Incorporation or Organization) Identification No.)

111 South Worcester Street 02766-2102  
Norton MA (Zip Code)  
(Address of principal executive offices)

(508) 222-0614  
Registrant's Telephone Number, including Area Code:

**CPS TECHNOLOGIES CORPORATION**  
111 South Worcester Street  
Norton, MA 02766-2102  
Former Name, Former Address and Former Fiscal Year if Changed since Last Report

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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 than the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. [X] 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):  
[ ] Yes [X] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of May 10, 2013: 12,871,759.

**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS (Unaudited)****CPS TECHNOLOGIES CORPORATION****Balance Sheets (Unaudited)**

|  | March 30,<br>2013 | December<br>29,<br>2012 |
|--|-------------------|-------------------------|
| <b>ASSETS</b>                                |                   |                         |
| Current assets:                              |                   |                         |
| Cash and cash equivalents                    | \$305,674         | \$306,854               |
| Accounts receivable-trade, net               | 4,144,115         | 2,876,149               |
| Inventories, net                             | 2,053,169         | 2,457,315               |
| Prepaid expenses and other current assets    | 133,114           | 140,723                 |
| Deferred taxes                               | 353,105           | 354,825                 |
| Total current assets                         | 6,989,177         | 6,135,866               |
| Property and equipment:                      |                   |                         |
| Production equipment                         | 7,430,783         | 7,430,783               |
| Furniture and office equipment               | 354,490           | 354,490                 |
| Leasehold improvements                       | 735,099           | 735,099                 |
| Total cost                                   | 8,520,372         | 8,520,372               |
| Accumulated depreciation<br>and amortization | (7,039,120 )      | (6,877,285 )            |
| Construction in progress                     | 325,296           | 138,133                 |
| Net property and equipment                   | 1,806,548         | 1,781,220               |
| Deferred taxes, non-current portion          | 2,432,148         | 2,432,148               |
| Total Assets                                 | \$11,227,873      | \$10,349,234            |

See accompanying notes to financial statements.

(continued)

**CPS TECHNOLOGIES CORPORATION****Balance Sheets (Unaudited)**

(concluded)

| LIABILITIES AND STOCKHOLDERS' EQUITY   | March 30,<br>2013 | December 29,<br>2012 |
|--|-------------------|----------------------|
| Current liabilities:   |                   |                      |
| Line of credit   | \$600,000         | \$500,000            |
| Equipment lease line of credit   | 163,155           | —                    |
| Accounts payable   | 1,366,532         | 1,179,313            |
| Accrued expenses   | 1,345,855         | 938,043              |
| Current obligations under capital leases   | 108,102           | 123,366              |
| Total current liabilities  | 3,583,644         | 2,740,722            |
| Obligations under capital leases   | 55,848            | 76,372               |
| Total liabilities  | 3,639,492         | 2,817,094            |
| Commitments (note 9)   |                   |                      |
| Stockholders' equity:  |                   |                      |
| Common stock, \$0.01 par value, authorized 15,000,000 shares; issued 12,921,942 shares; outstanding 12,871,759 shares; at March 30, 2013 and December 29, 2012 | 129,281           | 129,281              |
| Additional paid-in capital   | 33,875,592        | 33,821,961           |
| Accumulated deficit  | (26,282,177)      | (26,284,787)         |
| Less cost of 56,283 common shares repurchased  | (134,315 )        | (134,315 )           |
| Total stockholders' equity   | 7,588,381         | 7,532,140            |
| Total liabilities and stockholders' equity   | \$11,227,873      | \$10,349,234         |

See accompanying notes to financial statements.

**CPS TECHNOLOGIES CORPORATION**  
**Statements of Operations (Unaudited)**

|  | Fiscal Quarters Ended |                   |
|--|-----------------------|-------------------|
|  | March 30,<br>2013     | March 31,<br>2012 |
| Revenues:  |                       |                   |
| Product sales  | \$4,913,347           | \$ 3,342,653      |
| Research and development under cooperative agreement         | 117,731               | 212,123           |
| Total revenues   | 5,031,078             | 3,554,776         |
| Cost of product sales  | 4,018,754             | 3,405,575         |
| Cost of research and development under cooperative agreement | 97,887                | 183,041           |
| Gross Margin   | 914,437               | (33,840 )         |
| Selling, general, and administrative expense                 | 899,915               | 808,723           |
| Income (loss) from operations                                | 14,522                | (842,563 )        |
| Interest expense, net  | (10,192 )             | (5,772 )          |
| Income (loss) before taxes                                   | 4,330                 | (848,335 )        |
| Income tax provision (benefit)                               | 1,720                 | (314,000 )        |
| Net income (loss)  | \$2,610               | (\$534,335 )      |
| Net income (loss) per basic common share                     | \$0.00                | \$ (0.04 )        |
| Weighted average number of basic common shares outstanding   | 12,871,759            | 12,865,659        |
| Net income (loss) per diluted common share                   | \$0.00                | \$ (0.04 )        |
| Weighted average number of diluted common shares outstanding | 13,112,626            | 12,865,659        |

See accompanying notes to financial statements.

**CPS TECHNOLOGIES CORPORATION**  
**Statements of Cash Flows (Unaudited)**

|   | March 30,<br>2013 | March 31,<br>2012 |
|---|-------------------|-------------------|
| Cash flows from operating activities:   |                   |                   |
| Net income (loss)   | \$2,610           | \$(534,335 )      |
| Adjustments to reconcile net income (loss)<br>to cash used in operating activities: |                   |                   |
| Depreciation and amortization   | 161,835           | 197,616           |
| Share-based compensation  | 53,631            | 58,034            |
| Deferred taxes  | 1,720             | (314,000 )        |
| Changes in:   |                   |                   |
| Accounts receivable-trade   | (1,267,966)       | 627,835           |
| Inventories   | 404,146           | (282,074 )        |
| Prepaid expenses and other current assets   | 7,609             | 19,715            |
| Accounts payable  | 187,219           | (89,235 )         |
| Accrued expenses  | 407,812           | 21,657            |
| Net cash used in operating activities   | (41,384 )         | (294,787 )        |
| Cash flows from investing activities:   |                   |                   |
| Purchases of property and equipment   | (187,163 )        | (150,958 )        |
| Net cash used in investing<br>activities  | (187,163 )        | (150,958 )        |
| Cash flows from financing activities:   |                   |                   |
| Payment of capital lease obligations  | (35,788 )         | (75,634 )         |
| Proceeds from equipment lease line  | 163,155           | —                 |
| Proceeds from line of credit  | 100,000           | —                 |
| Net cash provided (used) in<br>financing activities                                 | 227,367           | (75,634 )         |
| Net decrease in cash and cash equivalents   | (1,180 )          | (521,379 )        |
| Cash and cash equivalents at beginning of period                                    | 306,854           | 1,142,429         |
| Cash and cash equivalents at end of period  | \$305,674         | \$621,050         |
| Supplemental cash flow information:   |                   |                   |
| Cash paid for taxes, net of refunds   | \$—               | \$—               |
| Interest paid   | \$10,192          | \$5,772           |

See accompanying notes to financial statements.

**CPS TECHNOLOGIES CORPORATION**

**Notes to Financial Statement**

**(Unaudited)**

(1) Nature of Business

CPS Technologies Corporation (the “Company” or “CPS”) provides advanced material solutions to the electronics, power generation, automotive and other industries. The Company’s primary advanced material solution is metal-matrix composites which are a combination of metal and ceramic.

CPS also assembles housings and packages for hybrid circuits. These housings and packages may include components made of metal-matrix composites or they may include components made of more traditional materials such as aluminum, copper-tungsten, etc.

In 2008 the Company also entered into a cooperative agreement with the U.S. Army to further develop its composite technology to produce armor.

(2) Interim Financial Statements

As permitted by the rules of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles.

The accompanying financial statements are unaudited. In the opinion of management, the unaudited financial statements of CPS reflect all normal recurring adjustments which are necessary to present fairly the financial position and results of operations for such periods.

The Company’s balance sheet at December 29, 2012 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain items in the 2012 financial statements have been reclassified to conform with the 2013 presentation.

For further information, refer to the financial statements and footnotes thereto included in the Registrant’s Annual Report on Form 10-K for the year ended December 29, 2012.

The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

(3) Net Income Per Common and Common Equivalent Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares plus additional common shares that would have been outstanding if potential dilutive common shares had been issued for granted stock options and stock purchase rights. Common stock equivalents are excluded from the diluted calculations when a net loss is incurred as they would be anti-dilutive.

The following table presents the calculation of both basic and diluted earnings per share ("EPS"):

|                                | For period ended  |                   |
|--------------------------------|-------------------|-------------------|
|                                | March 30,<br>2013 | March 31,<br>2012 |
| Basic EPS Computation:         |                   |                   |
| Numerator:                     |                   |                   |
| Net income (loss)              | \$2,610           | \$ (534,335)      |
| Denominator:                   |                   |                   |
| Weighted average common shares |                   |                   |
| Outstanding                    | 12,871,759        | 12,865,659        |
| Basic EPS                      | \$0.00            | \$ (0.04)         |
| Diluted EPS Computation:       |                   |                   |
| Numerator:                     |                   |                   |
| Net income (loss)              | \$2,610           | \$ (534,335)      |
| Denominator:                   |                   |                   |
| Weighted average common shares |                   |                   |
| Outstanding                    | 12,871,759        | 12,865,659        |
| stock options                  | 240,867           | —                 |
| Total Shares                   | 13,112,626        | 12,865,659        |
| Diluted EPS                    | \$0.00            | \$ (0.04)         |

(4) Share-Based Payments

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide services in exchange for the award, the requisite service period (usually the vesting period). The Company provides an estimate of forfeitures at initial grant date. Reductions in compensation expense associated with the forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted periodically based on actual forfeiture experience. The company uses the Black-Scholes option pricing model to determine the fair value of the stock options granted.



There were no shares granted under the 2009 Stock Incentive Plan (the "Plan") during the quarters ended March 30, 2013 or March 31, 2012. During the quarters ended March 30, 2013 and March 31, 2012, the Company recognized \$53,631 and \$58,034 respectively as share-based compensation expense related to previously granted shares under the Plan. During the quarters ended March 30, 2013 and March 31, 2012 there were no option exercises.

As of March 30, 2013, there was \$535,766 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted average period of 3.25 years.

#### (5) Inventories

Inventories consist of the following:

|                          | March 30,<br>2013 | December 29,<br>2012 |
|--------------------------|-------------------|----------------------|
| Raw materials            | \$369,959         | \$ 312,213           |
| Work in process          | 1,050,957         | 1,145,843            |
| Finished goods           | 944,253           | 1,306,259            |
| Total inventory          | 2,365,169         | 2,764,315            |
| Reserve for obsolescence | (312,000)         | (307,000)            |
| Inventories, net         | \$2,053,169       | \$ 2,457,315         |

#### (6) Accrued Expenses

Accrued expenses consist of the following:

|                              | March 30,<br>2013 | December 29,<br>2012 |
|------------------------------|-------------------|----------------------|
| Accrued legal and accounting | \$86,319          | \$ 92,000            |
| Accrued payroll              | 596,038           | 388,029              |
| Accrued other                | 663,498           | 457,558              |
| Accrued income taxes         | —                 | 456                  |
| Total Accrued Expenses       | \$1,345,855       | \$ 938,043           |

(7) Line of Credit and Equipment Lease Facility Agreements

In early May 2013, the Company renewed its \$2 million revolving line of credit ("LOC") and \$500 thousand of an equipment finance facility ("Lease Line") with Sovereign Bank. Both agreements mature in May 2014. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus one percent (1%) and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Sovereign Bank. The LOC and the Lease Line are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the line of credit that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At March 30, 2013, the Company was in compliance with existing covenants. At March 30, 2013, the Company had \$327 thousand net carrying value of capital equipment financed by advances and capital lease obligations under the Lease Line and \$173 thousand available remaining. Equipment financed by the Sovereign equipment lease qualifies for treatment as a capital lease once converted from the Lease Line to a lease. At March 30, 2013 the Company had borrowed \$600 thousand under this LOC and its borrowing base at the time would have permitted an additional \$ 1,174 thousand to have been borrowed.

(8) Income Taxes

At December 29, 2012, the Company had approximately \$3,303,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company recorded a tax expense of \$1,340 for federal income taxes and \$380 for state income taxes during the quarter ended March 30, 2013.

The Company has a current and non-current deferred tax asset aggregating \$2,785,253 and \$2,786,973 on the Company's balance sheet at March 30, 2013 and December 29, 2012, respectively. A valuation allowance is required to be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company believes that it will generate sufficient future taxable income to realize the tax benefits related to the remaining deferred tax assets and as such no valuation allowance has been provided against the deferred tax asset.

(9) Commitment

In July 2006, the Company entered into a lease for its current operating facilities of approximately 37,520 square feet of rentable space located on approximately seven acres at its current site in Norton, MA. The term of the lease is ten years. The lease is a triple net lease wherein the Company is responsible for payment of all real estate taxes, operating costs and utilities. The Company also has an option to buy the property and a first right of refusal during the term of the lease. Annual rental payments are \$100,000 in year one increasing to \$150,000 in year ten.

In February 2011, the Company entered into a one-year lease, with five options to renew for one year periods, for approximately 13,800 square feet of rentable space inside a larger building located at 79 Walton Street, Attleboro, Massachusetts. Monthly rent, which includes utilities, is \$6,900. In October 2012, the Company renewed the lease through February, 2014.

#### (10) Subsequent Events

See Note 7 for a description of the Line of Credit and Equipment Lease Facility Agreements renewal with Sovereign Bank

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

The following discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the financial statements of the Company and notes thereto included in this report and the Company's Annual Report on Form 10-K for the year ended December 29, 2012.

#### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve a number of risks and uncertainties. There are a number of factors that could cause the Company's actual results to differ materially from those forecasted or projected in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or changed circumstances after the date hereof or to reflect the occurrence of unanticipated events.

#### Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 29, 2012, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". There have been no material changes to these policies since December 29, 2012.

#### Overview

CPS Technologies Corporation (the 'Company' or 'CPS') provides advanced material solutions to the electronics, power generation, automotive and other industries. In 2008 the Company also entered into a cooperative agreement with the

U.S. Army to further develop its composite technology to produce armor.

The Company's products are generally used in high-power, high-reliability applications. These applications always involve energy use or energy generation and the Company's products allow higher performance and improved energy efficiency. The Company is an important participant in the growing movement towards alternative energy and "green" lifestyles. For example, the Company's products are used in mass transit, hybrid and electric cars, wind-turbines for electricity generation as well as routers and switches for the internet which in turn allows telecommuting.

The Company's primary advanced material solution is metal matrix composites (MMCs), a new class of materials which are a combination of metal and ceramic. CPS has a leading, proprietary position in metal matrix composites. Metal matrix composites have several superior properties compared to conventional materials including improved thermal conductivity, thermal expansion matching, stiffness and light weight which enable higher performance and higher reliability in our customers' products.

Like plastics several decades ago, we believe metal-matrix composites will penetrate many end markets over many years. CPS management believes our business model of providing advanced material solutions to a portfolio of high growth end markets which are, at any point in time, in various stages of the technology adoption lifecycle, provides CPS with the opportunity for sustained growth and a diversified customer base. We believe we have validated this model as we are now supplying customers at all stages of the technology adoption lifecycle.

CPS is the leader in supplying metal matrix composites to certain high growth electronics end markets which are well along in the adoption lifecycle and therefore generating significant demand. These end markets include high-performance integrated circuits and circuit boards used in internet switches and routers, as well as motor controllers used in high-speed electric trains, subway cars and wind turbines. CPS supplies heat spreaders, lids and baseplates to customers in these end markets. CPS is a fully qualified manufacturer for many of the world's largest electronics OEMs.

CPS also assembles housings and packages for hybrid circuits. These housings and packages may include components made of metal-matrix composites; they may include components made of more traditional materials such as aluminum, copper-tungsten, etc.

A market at an earlier stage of the adoption lifecycle is the market for hybrid and electric automobiles. The Company recently announced a multi-year supply agreement with a major tier one automotive supplier for the supply of AlSiC pin fin baseplates for use in motor controllers for hybrid and electric automobiles.

We are also actively working with customers in end markets at the beginning stages of the adoption lifecycle. An example of such a market is the market for armor. In 2008 the Company entered into a cooperative agreement with the

Army Research Laboratory to further develop large hybrid metal matrix composite modules which integrally combine metal matrix composites and ceramics by enveloping ceramic tiles with MMCs. This system offers a lighter weight, durable, multi-hit capable and cost competitive alternative to conventional steel, aluminum and ceramic based armor systems. CPS hybrid hard face armor modules are comprised of multiple materials completely enveloped within and mechanically and chemically bonded to lightweight and stiff aluminum metal matrix composites.

The Company believes that its hybrid hard face armor tiles will find application in many military vehicles as well as armored commercial vehicles.

Our products are manufactured by proprietary processes we have developed including the Quickset™ Injection Molding Process ('Quickset Process') and the QuickCast™ Pressure Infiltration Process ('QuickCast Process').

CPS was incorporated in Massachusetts in 1984 as Ceramics Process Systems Corporation and reincorporated in Delaware in April 1987 through a merger into a wholly-owned Delaware subsidiary organized for purposes of the reincorporation. In July 1987, CPS completed our initial public offering of 1.5 million shares of our Common Stock. In March 2007, we changed our name from Ceramics Process Systems Corporation to CPS Technologies Corporation.

Results of Operations for the First Fiscal Quarter of 2013 (Q1 2013) Compared to the First Fiscal Quarter of 2012 (Q1 2012); (all \$ in 000's)

Total revenue was \$5,031 in Q1 2013, a 42% increase compared with total revenue of \$3,555 generated in Q1 2012. This increase was due in large part to the sales of baseplates for traction products.

Gross margin in Q1 2013 totaled \$914 or 18% of sales. In Q1 2012, gross margin was negative \$ 34, or minus 2% of sales. This improvement was due to two primary factors: first, the increase in sales volume and secondly, to a lesser extent, the absence of additional costs associated with an outside finishing operation incurred during Q1 2012.

Selling, general and administrative (SG&A) expenses were \$900 in Q1 2013, up 11% compared with SG&A expenses of \$809 in Q1 2012. This increase was due principally to an increase in sales commissions associated with the higher sales volume.

As a result of the higher revenues and the absence of additional finishing costs, the Company earned an operating profit of \$15, compared with an operating loss of \$843 in the same quarter last year. Interest expense increased to \$10 in Q1 2013, from \$6 in Q1 2012, reflecting higher average bank borrowings in Q1 2012. The net income for Q1 2013 totaled \$3 versus a net loss of \$534 in Q1 2012.

Liquidity and Capital Resources (all \$ in 000's unless noted)

The Company's cash and cash equivalents at March 30, 2013 totaled \$306 while, at the same time the Company had bank borrowing of \$600. This compares to cash and cash equivalents at December 29, 2012 of \$307 and bank borrowings of \$500. The increase in borrowings was due to a combination of factors including a \$1.3 million increase in receivables due to higher sales, offset in large part by a reduction in inventories of \$404, an increase in payables and accruals of \$595 and an increase in the equipment lease line of credit of \$163.

Accounts receivable at March 30, 2013 totaled \$4.1 million compared with \$2.9 million at December 29, 2012. Days Sales Outstanding (DSOs) increased to 74 days in Q1 2013 from 63 days in Q4 2012. Since this calculation is based on the ending accounts receivable balance over sales for the quarter, the fact that sales were greater in the latter part of the period had a ballooning effect on the DSO. The accounts receivable balances at December 29, 2012, and March 30, 2013 were both net of an allowance for doubtful accounts of \$10.

Inventories decreased to \$2.1 million at March 30, 2013, from \$2.5 million at December 29, 2012.

During 2011, the Company increased inventories to meet forecasts provided by a key customer; actual demand was short of the forecasts. During 2012, primarily in the Fourth Quarter of 2012, the Company was able to draw down on this inventory as sales from this customer increased and this trend continued in Q1 2013. The Company did not experience any obsolescence as a result of this situation. The inventory turnover in 2012 was 4.4, for the most recent four quarters ending Q1 2013 the turnover improved to 4.9.

All consigned inventory is shipped under existing purchase orders and per customers' requests. Of the inventory of \$2.1 million at March 30, 2013, \$787 thousand was located at customers' locations pursuant to consigned inventory agreements. Of the total inventory of \$2.5 million at December 29, 2012, \$1.4 million was located at customers' locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q1 2013 with a combination of cash balances and borrowings under its committed bank line of credit. The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2013 from a combination of operating cash flow, existing cash balances and borrowings under its line of credit, when necessary.

The Company continues to sell to a limited number of customers and the loss of any one of these customers could cause the Company to require additional external financing. Failure to generate sufficient revenues, raise additional capital or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its business objectives.

Contractual Obligations

In early May 2013, the Company renewed its \$2 million revolving line of credit (“LOC”) and \$500 thousand of an equipment finance facility (“Lease Line”) with Sovereign Bank. Both agreements mature in May 2014. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus one percent (1%) and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Sovereign Bank. The LOC and the Lease Line are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the line of credit that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At March 30, 2013, the Company was in compliance with existing covenants. At March 30, 2013, the Company had \$327 thousand net carrying value of capital equipment financed by advances and capital lease obligations under the Lease Line and \$173 thousand available remaining. Equipment financed by the Sovereign equipment lease qualifies for treatment as a capital lease once converted from the Lease Line to a lease. At March 30, 2013 the Company had borrowed \$600 thousand under this LOC and its borrowing base at the time would have permitted an additional \$ 1,174 thousand to have been borrowed.

The covenants with Sovereign Bank are identical for the line of credit and equipment financing facility. The covenant requirements are shown below together with the actual ratios achieved:

| <u>Covenant</u>                     | <u>Requirement</u>                    | <u>Actual</u> |
|-------------------------------------|---------------------------------------|---------------|
| Net Income                          | Minimum of \$1.00                     | \$3k          |
| Current Ratio                       | minimum of 1.5X                       | 2.0X          |
| Liabilities to Net Worth            | maximum of 1.0X                       | 0.5X          |
| Capital Expenditures for 2013       | maximum of \$900k                     | \$187k        |
| Borrowings under the lease line     | maximum of \$500K                     | \$327K        |
| Borrowings under the line of credit | maximum of \$1,774k*                  | \$600K        |
|                                     | *(based on receivables at<br>3/30/13) |               |

Management believes that cash flows from operations, existing cash balances and the leasing and credit line in place with Sovereign Bank will be sufficient to fund our cash requirements for the foreseeable future. However, there is no assurance that we will be able to generate sufficient revenues or reduce certain discretionary spending in the event that planned operational goals are not met such that we will be able to meet our obligations as they become due.

As of March 30, 2013 the Company had \$325 thousand of construction in progress and outstanding commitments to purchase \$225 thousand of production equipment. The Company intends to finance production equipment in construction in progress and outstanding commitments under the lease agreement with existing cash balances and funds generated by operations.

In July 2006, the Company entered into a 10-year lease for its current operating facilities of approximately 37,520 square feet of rentable space located on approximately seven acres at its current site in Norton, MA. The lease is a triple net lease wherein the Company is responsible for payment of all real estate taxes, operating costs and utilities. The Company also has an option to buy the property and a first right of refusal during the term of the lease. Annual rental payments are \$100 thousand in year one increasing to \$150 thousand in year ten.

In February 2011, the Company entered into a lease for an additional 13.8 thousand square feet in Attleboro, MA for monthly rent, including utilities of \$6,900. The lease term was for one year and had an option to extend the lease for five additional one year periods. In October 2012 the Company renewed the lease for one additional year through February, 2014.

The Company's contractual obligations at March 30, 2013 consist of the following:

|   | Payments Due by Period |           |           |       |
|---|------------------------|-----------|-----------|-------|
|   | Remaining<br>in        | FY 2014-  |           | FY    |
|   | Total                  | FY 2013   | FY 2016   | 2017- |
| Capital lease obligations including interest  | \$169,611              | \$91,545  | \$78,066  | \$ —  |
| Purchase commitments for production equipment | \$225,000              | \$225,000 | \$—       | \$ —  |
| Operating lease obligation for facilities     | \$509,833              | \$167,100 | \$342,733 | \$ —  |

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not significantly exposed to the impact of interest rate changes or foreign currency fluctuations. The Company has not used derivative financial instruments.

### ITEM 4 CONTROLS AND PROCEDURES

(a) The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d - 14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Form 10-Q (the "Evaluation Date"). Based on such evaluation, such officer has concluded that, as of the Evaluation Date, 1) the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports the Company files under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and 2) the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.



(b) Changes in Internal Controls. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

None.

**ITEM 1A RISK FACTORS**

There have been no material changes to the risk factors as discussed in our 2012 Form 10-K.

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

None.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 OTHER INFORMATION**

Not applicable.

**ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K:**

(a) Exhibits:

Exhibit 31.1 Certification Of Chief Executive Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

Exhibit 31.2 Certification Of Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

Exhibit 32.1 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

(b)

Reports on Form 8-K:

On March 29, 2013 the Company filed a report on Form 8-K relating to the announcement of its financial results for the year ended December 29, 2012 as presented in a press release dated March 29, 2013.

## **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 thereunto duly authorized.

### **CPS TECHNOLOGIES CORPORATION**

(Registrant)

Date: May 13, 2013  
/s/ Grant C. Bennett  
Grant C. Bennett  
Chief Executive Officer

Date: May 13, 2013  
/s/ Ralph M. Norwood  
Ralph M. Norwood  
Chief Financial Officer