

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
August 13, 2012

**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 June 30, 2012  
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)

<u>Delaware</u> (State or Other Jurisdiction of Incorporation or Organization)	<u>04-2832509</u> (I.R.S. Employer Identification No.)
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111 South Worcester Street Norton <u>MA</u> (Address of principal executive offices)	<u>02766-2102</u> (Zip Code)
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(508) 222-0614  
Registrants Telephone Number, including Area Code:

**CPS Technologies Corporation**

111 South Worcester Street

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Norton, MA 02766-2102

Former Name, Former Address and Former Fiscal Year if Changed since Last Report

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.  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).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. 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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of August 5, 2012: 12,891,659.

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

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$374,328	\$1,142,429
Accounts receivable-trade net of allowance for doubtful accounts and sales returns of \$40,000 and \$10,000 at June 30, 2012 and December 31, 2011, respectively	1,749,711	3,112,960
Inventories	3,360,415	3,138,617
Prepaid expenses and other current assets	110,632	152,444
Deferred taxes	—	287,056
Total current assets	5,595,086	7,833,506
Property and equipment:		
Production equipment	7,276,295	7,128,202
Furniture and office equipment	353,780	353,781
Leasehold improvements	735,099	735,099
Total cost	8,365,174	8,217,082
Accumulated depreciation and amortization	(6,552,232)	(6,154,193 )
Construction in progress	292,923	244,156
Net property and equipment	2,105,865	2,307,045
Deferred taxes, non-current portion	2,079,817	1,193,761
Total assets	\$9,780,768	\$11,334,312

See accompanying notes to financial statements.

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

LIABILITIES AND STOCKHOLDERS` EQUITY	June 30, 2012	December 31, 2011
Current liabilities:		
Accounts payable	\$980,866	\$1,463,997
Accrued expenses	512,391	660,031
Current portion of obligations under capital leases	142,348	208,504
Total current liabilities	1,635,605	2,332,532
Obligations under capital leases less current portion	127,751	199,738
Total liabilities	1,763,356	2,532,270
Commitments		
Stockholders` equity:		
Common stock, \$0.01 par value, authorized 15,000,000 shares; issued 12,927,942 and 12,921,942 shares; outstanding 12,891,659 and 12,865,659 shares; at June 30, 2012 and December 31, 2011, respectively	129,279	129,220
Additional paid-in capital	33,692,266	33,569,896
Accumulated deficit	(25,669,818)	(24,762,759)
Less cost of 56,283 common shares repurchased	(134,315 )	(134,315 )
Total stockholders` equity	8,017,412	8,802,042
Total liabilities and stockholders` equity	\$9,780,768	\$11,334,312

See accompanying notes to financial statements.

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

	Fiscal Quarters Ended		Six Month Periods Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Revenues:				
Product sales	\$3,529,672	\$4,292,369	\$6,872,325	\$9,340,227
Research and development under cooperative agreement	98,593	549,391	310,716	1,341,878
Total revenues	3,628,265	4,841,760	7,183,041	10,682,105
Cost of product sales	3,352,442	3,380,055	6,758,017	7,599,920
Cost of research and development under cooperative agreement	82,844	502,289	265,885	1,266,709
Gross Margin	192,979	959,416	159,139	1,815,476
Selling, general, and administrative expense	845,009	927,068	1,653,732	1,744,014
Operating income (loss)	(652,030 )	32,348	(1,494,593 )	71,462
Interest expense, net	(5,694 )	(8,065 )	(11,466 )	(17,736 )
Net income (loss) before income tax expense (benefit)	(657,724 )	24,283	1,506,059 )	53,726
Income tax expense (benefit)	(285,000 )	11,100	(599,000 )	24,400
Net income (loss)	\$(372,724 )	\$13,183	\$(907,059 )	\$29,326
Net income (loss) per basic common share	\$(0.03 )	\$0.00	\$(0.07 )	\$0.00
Weighted average number of basic common shares outstanding	12,869,483	12,738,390	12,867,571	12,726,168
Net income (loss) per diluted common share	\$(0.03 )	\$0.00	\$(0.07 )	\$0.00
Weighted average number of diluted common shares outstanding	12,869,483	13,229,112	12,867,571	13,204,616

See accompanying notes to financial statements.

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

	Six Month Periods Ended	
	June 30, 2012	July 2, 2011
Cash flows from operating activities:		
Net income (loss)	\$(907,059 )	\$29,326
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	398,039	363,874
Share-based compensation	113,251	112,491
Deferred taxes	(599,000 )	14,200
Excess tax benefit from stock options exercised	—	(32,050 )
Changes in:		
Accounts receivable-trade, net	1,363,249	89,036
Inventories	(221,798 )	(528,120 )
Prepaid expenses and other current assets	41,812	(45,970 )
Accounts payable	(483,131 )	133,531
Accrued expenses	(147,640 )	(291,637 )
Net cash used in operating activities	(442,277 )	(155,319 )
Cash flows from investing activities:		
Purchases of property and equipment	(196,859 )	(316,795 )
Net cash used in investing activities	(196,859 )	(316,795 )
Cash flows from financing activities:		
Payment of capital lease obligations	(138,143 )	(138,210 )
Excess tax benefit from stock options exercised	—	32,050
Proceeds from issuance of common stock	9,178	35,274
Net cash used in financing activities	(128,965 )	(70,886 )
Net decrease in cash and cash equivalents	(768,101 )	(543,000 )
Cash and cash equivalents at beginning of period	1,142,429	1,803,222
Cash and cash equivalents at end of period	\$374,328	\$1,260,222
Supplemental cash flow information:		
Cash paid for taxes	\$—	\$76,500
Interest paid	\$11,466	\$17,736

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 31, 2011 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 2011 financial statements have been reclassified to conform with the 2012 presentation.

For further information, refer to the financial statements and footnotes thereto included CPS’s Annual Report on Form 10-K for the year ended December 31, 2011.

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



The Company's second fiscal quarter end is the Saturday closest to June 30<sup>th</sup>, which could result in a 13 or 14 week fiscal quarter. The second quarters for fiscal 2011 and 2012 each consisted of 13 weeks.

### (3) Net Income (Loss) Per Common and Common Equivalent Share

Basic net income or net loss per common share is calculated by dividing net income (loss) 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 option 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 EPS:

	Fiscal Quarters Ended		Six Month Periods Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	-----	-----	-----	-----
Basic EPS Computation:				
Numerator:				
Net income (loss)	\$ (372,724 )	\$ 13,183	\$ (907,059 )	\$ 29,326
Denominator:				
Weighted average				
Common shares				
Outstanding	12,869,483	12,738,390	12,867,571	12,726,168
Basic EPS	\$ (0.03 )	\$ 0.00	\$ (0.07 )	\$ 0.00
Diluted EPS Computation:				
Numerator:				
Net income (loss)	\$ (372,724 )	\$ 13,183	\$ (907,059 )	\$ 29,326
Denominator:				
Weighted average				
Common shares				
Outstanding	12,869,483	12,738,390	12,867,571	12,726,168
Dilutive effect of stock options	—	490,722	—	478,448
Total Shares	12,869,483	13,229,112	12,867,571	13,204,616
Diluted EPS	\$ (0.03 )	\$ 0.00	\$ (0.07 )	\$ 0.00

### (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 June 30, 2012 and July 2, 2011. During the three and six months ended June 30, 2012, the Company recognized \$55,217 and \$113,251, respectively, as shared-based compensation expense related to previously granted shares under the Plan. During the three and six months ended July 2, 2011, the Company recognized \$61,595 and \$112,491, respectively, as shared-based compensation expense related to previously granted shares under the Plan. During the three months ended June 30, 2012 the Company issued 6,000 shares as a result of option exercises. There were no option exercises during the quarter ended March 31, 2012. During the three and six months ended July 2, 2011 the Company issued 20,000 and 63,750 shares, respectively, as a result of option exercises.

#### (5) Inventories

Inventories consist of the following:

	June 30, 2012	December 31, 2011
Raw materials	\$297,996	\$390,281
Work in process	1,645,513	1,686,966
Finished goods	1,416,906	1,061,370
Inventories	\$3,360,415	\$3,138,617

#### (6) Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2012	December 31, 2011
Accrued legal and accounting	\$56,366	\$72,700
Accrued payroll	273,145	456,322
Accrued other	182,880	131,009
	\$512,391	\$660,031

#### (7) Line of Credit and Equipment Lease Facility Agreements

In early May 2012 the Company increased its \$1 million revolving line of credit ("LOC") to \$ 2 million and renewed its \$ 1.25 million equipment finance facility ("Lease Line") with Sovereign Bank. Both agreements mature in May 2013. 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 LOC agreement, the Company is required to maintain its operating accounts with Sovereign Bank and the Company borrowing capacity is the lesser of the \$2million LOC or its borrowing base. At June 30, 2012 the Company's borrowing base was \$836 thousand. 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 LOC that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At June 30, 2012, the Company was in compliance with existing covenants and there were no borrowings outstanding. At June 30, 2012, the Company had \$270 thousand of capital equipment financed by the Sovereign equipment finance facility and \$980 thousand available remaining on the Sovereign equipment finance facility.

#### (8) Income Taxes

At December 31, 2011, the Company had approximately \$1,368,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company recorded a tax benefit of \$227,000 and \$467,000 for federal income taxes and a tax benefit of \$58,000 and \$132,000 for state income taxes during the three and six months ended June 30, 2012, respectively. The company recorded a tax provision of \$6,700 and \$15,100 for federal income taxes and a tax provision of \$4,400 and \$9,300 for state income taxes during the three and six months ended July 2, 2011, respectively.

The Company has a current and non-current deferred tax asset aggregating \$2,079,817 and \$1,480,817 on the Company's balance sheet at June 30, 2012 and December 31, 2011, 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 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 February 2012, the Company exercised the first of the five one year renewal options.

As of June 30, 2012, production equipment included \$293 thousand of construction in progress, and the Company had outstanding commitments to purchase \$238 thousand of production equipment. The Company intends to finance production equipment in construction in progress and outstanding commitments under the lease agreement with a combination of accessing the Lease Line, cash balances and the borrowings under the LOC.

## **ITEM 2 MANagements 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 31, 2011.

### 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 31, 2011, 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 31, 2011.

### 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 AISiC 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<sup>TM</sup> Injection Molding Process (`Quickset Process`) and the QuickCast<sup>TM</sup> 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 Second Fiscal Quarter of 2012 (Q2 2012) Compared to the Second Fiscal Quarter of 2011 (Q2 2011); (all \$ in 000` s)

Revenue totaled \$3,628 in Q2 2012, a 25% decrease from total revenue of \$4,842 generated in Q2 2011. Several factors contributed to this shortfall, including: weak orders for traction products, a decline in the demand for heatspreaders and lids as certain specific products approach end of life, a reduction in revenues earned from our Cooperative Agreement with the US Army Research Laboratory, and a decline in the sale of hermetic packages. The impact of these factors was partially offset by an increase in the sale of baseplates for hybrid and electric vehicle applications.

Gross Margin in Q2 2012 totaled \$193 or 5% of sales, compared with \$959 or 20% of sales in Q2 2011. This reduction was primarily due to the reduction in sales volumes across most product lines which resulted in fixed costs being spread over fewer revenue dollars; in addition the Company incurred \$95 of obsolescence charges in Q2 2012 compared with \$0 in Q2 2011.

Selling, general and administrative (SG&A) expenses were \$845 in Q2 2012, down 8% from SG&A expenses of \$927 in Q2 2011. This reduction was due to lower compensation and benefit expense including the suspension of the Company's 401K match program in Q1 2012.

The Company incurred an operating loss of \$652, compared with an operating profit of \$32 in the same quarter last year. This reduction was primarily due to a reduction in gross margin due to a drop in sales volume and partially offset by lower by lower SG&A expenses. Interest expense totaled \$6 in Q2 2012 compared with \$8 in Q2 2011.

The net loss for Q2 2012 totaled \$373 versus net income of \$13 in Q2 2011.

Results of Operations for First Six Months of 2012 Compared to First Six Months of 2011 (all in \$ 000` s)

Total revenue was \$7,183 in the first six months of 2012, a decrease from total revenue of \$10,682 generated during the first six months of 2011. The Company continues to be adversely affected by the weak economies in Europe and the slow down in traction spending in China. Several other factors contributed to the decline in revenues including the fact that certain lids and heatspreaders are approaching end of life and a significant reduction in revenues earned from our Cooperative Agreement with the US Army Research Laboratory, as well as a decline in the sale of hermetic packages. The impact of these factors was offset in small part by an increase in the sale of baseplates for hybrid and

electric vehicle applications.

Gross Margin in the first six months of 2012 totaled \$159 or less than 2% of sales, compared with \$1,815 or 17% of revenues in the first six months of 2011. This reduction was due in large part to lower sales volume, but also adversely affected by additional costs associated with an outside finishing operation which were reflected in Q1 2012 and obsolescence charges for products that reached end of life earlier than forecast by customers.

Selling, general and administrative (SG&A) expenses were \$1,654 in the first six months of 2012, down 5% from SG&A expenses of \$1,744 incurred during the same period in 2011. As noted earlier, a major reason for this change was the suspension of the Company's 401K match program in Q1 2012 and lower compensation and benefit expense.

The Company incurred an operating loss in the first six months of 2012 of \$1,495 compared with an operating profit of \$71 in the first six months of 2011. This reduction was primarily due to the drop in sales volume, and to a lesser degree, the additional finishing costs and obsolescence charges. Interest expense totaled \$11 in the first six months of 2012 compared with \$18 on the first six months of 2011 as a result of a decline in capital leases.

The net loss for the first six months of 2012 totaled \$907 versus net income of \$29 in the first six months of 2011.

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

The Company's cash and cash equivalents at June 30, 2012 totaled \$374 compared with cash and cash equivalents at December 31, 2011 of \$1142. Cash declined primarily as a result of the loss from operations during the first six months of 2012.

Accounts receivable at June 30, 2012 totaled \$1,750 compared with \$3,113 at December 31, 2011. Days Sales Outstanding decreased to 43 days at the end of the second quarter 2012, compared with 66 days at December 31, 2011 reflecting a mix of payment terms with customers. The accounts receivable balance at June 30, 2012 and December 31, 2011 is net of allowance for doubtful accounts and sales returns of \$40 and \$10, respectively.

Inventories increased to \$3,360 at June 30, 2012 from \$3,139 at December 31, 2011. All consigned inventory is shipped under existing purchase orders and per customers' requests. \$1,456 (\$251 of finished goods and \$1,205 awaiting an outside finishing operation) of the inventory at June 30, 2012 was located at customers' locations pursuant to consigned inventory agreements; at December 31, 2011, \$1,363 (\$353 finished goods and \$1,010 awaiting an outside finishing operation) was located at customers' locations pursuant to consigned inventory agreements.

The Company financed its working capital during the first six months of 2012 with collections on accounts receivable and existing cash balances. The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2012 from a combination of existing cash balances and borrowings under its committed bank line of credit. The Company's borrowing capacity under the LOC is the lesser of \$2 million or its borrowing base. At June 30, 2012 the Company's borrowing base was \$836 thousand.

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, obtain additional capital financing or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its business objectives.

### Contractual Obligations

In May of 2012 the Company increased its \$1 million revolving line of credit ("LOC") to \$2 million and renewed its \$1.25 million equipment finance facility ("Lease Line") with Sovereign Bank. Both agreements mature in May 2013. 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 June 30, 2012, the Company was in compliance with existing covenants and there were no LOC borrowings outstanding. At June 30, 2012, the Company had \$270 of capital equipment financed by the Sovereign equipment finance facility and \$980 available remaining on the Sovereign equipment finance facility.

As of June 30, 2012 production equipment included \$293 thousand of construction in progress, and the Company had outstanding commitments to purchase \$238 thousand of production equipment. The Company intends to finance production equipment in construction in progress and outstanding commitments under the lease agreement with a combination of accessing the Lease Line, existing cash balances and borrowings under the LOC.

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 2012, the Company renewed a one-year lease, and has four additional 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.



The Company's contractual obligations at June 30, 2012 consist of the following:

	Total	Payments Due by Period		
		Remaining in FY 2013 -		
		FY 2012	FY 2015	FY 1016
Capital lease obligations including interest	\$ 283,293	\$ 75,793	\$ 207,500	\$ --
Purchase commitments for production equipment	\$ 238,411	\$ 238,411	\$ --	\$ --
Operating lease obligation for facilities	\$594,133	\$111,400	\$ 445,233	\$ 37,500

### 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 4T 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 2009 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 EXHIBITS**

(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 May 16, 2012 the Company filed a report on Form 8-K of its earnings report for the fiscal first quarter ended March 30, 2012.

On May 18, 2012 the Company filed a report on Form 8-K which included a transcript of the Company's conference call held on May 16, 2012.

**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: August 13, 2012  
/s/ Grant C. Bennett  
Grant C. Bennett  
Chief Executive Officer

Date: August 13, 2012  
/s/ Ralph M. Norwood  
Ralph M. Norwood  
Chief Financial Officer