

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
August 16, 2011

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 July 2, 2011  
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  
of Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

111 South Worcester Street  
Norton MA  
(Address of principal executive offices)

02766-2102

(Zip Code)

(508) 222-0614

Registrants 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). [ ] 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 [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 issuers classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of August 15, 2011: 12,739,709.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION

Balance Sheets (Unaudited)

(continued on next page)

	July 2, 2011	December 25, 2010
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,260,222	\$ 1,803,222
Accounts receivable-trade		
net of allowance for doubtful accounts		
of \$5,000 at July 2, 2011 and		
December 25, 2010	3,833,926	3,922,962
Inventories	2,051,878	1,523,758
Prepaid expenses	122,549	76,597

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Deferred taxes	340,079	354,774
	-----	-----
Total current assets	7,608,654	7,681,295
	-----	-----
Property and equipment:		
Production equipment	6,637,755	6,462,311
Furniture and office equipment	337,927	325,880
Leasehold improvements	699,832	677,529
	-----	-----
Total cost	7,675,514	7,465,720
Accumulated depreciation and amortization	(5,766,655)	(5,402,781)
Construction in progress	228,363	121,362
	-----	-----
Net property and equipment	2,137,222	2,184,301
	-----	-----
Deferred taxes, non-current portion	778,050	745,505
	-----	-----
Total assets	\$ 10,523,926	\$ 10,611,101
	=====	=====

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Balance Sheets (Unaudited)  
(concluded)

LIABILITIES AND STOCKHOLDERS' EQUITY	July 2, 2011	December 25, 2010
	-----	-----
Current liabilities:		
Accounts payable	\$ 946,095	\$ 812,564
Accrued expenses	592,622	884,259
Current portion of obligations under capital leases	215,303	253,167
	-----	-----
Total current liabilities	1,754,020	1,949,990
Obligations under capital		

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leases less current portion	75,215	175,561
	-----	-----
Total liabilities	1,829,235	2,125,551
	-----	-----
Commitments		
Stockholders` equity:		
Common stock, \$0.01 par value,		
authorized 15,000,000 shares;		
at July 2, 2011 and December 25,		
2010;		
issued 12,762,592 and 12,698,842		
shares		
at July 2, 2011 and December 25,		
2010, respectively;		
outstanding 12,739,709 and		
12,675,959 shares		
at July 2, 2011 and December 25,	127,626	126,989
2010, respectively;		
Additional paid-in capital	33,315,598	33,136,420
Accumulated deficit	(24,687,698)	(24,717,024)
Less cost of 22,883 common shares		
repurchased	(60,835)	(60,835)
	-----	-----
Total stockholders` equity	8,694,691	8,485,550
	-----	-----
Total liabilities and stockholders`		
equity	\$ 10,523,926	\$ 10,611,101
	=====	=====

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Six Month Periods Ended	
	July 2,	June 26,	July 2,	June 26,
	2011	2010	2011	2010
	-----	-----	-----	-----
Revenues:				
Product sales	\$ 4,292,369	\$4,970,762	\$ 9,340,227	\$ 10,006,231

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Research and development under cooperative agreement	549,391	215,921	1,341,878	589,638
	-----	-----	-----	-----
Total revenues	4,841,760	5,186,683	10,682,105	10,595,869
Cost of product sales	3,380,055	3,608,979	7,599,920	7,616,879
Cost of research and development under cooperative agreement	502,289	193,296	1,266,709	544,595
	-----	-----	-----	-----
Gross Margin	959,416	1,384,408	1,815,476	2,434,395
Selling, general, and administrative expense	927,068	663,419	1,744,014	1,426,473
	-----	-----	-----	-----
Operating income	32,348	720,989	71,462	1,007,922
Other income (expense), net	(8,065)	(7,816)	(17,736)	(16,476)
	-----	-----	-----	-----
Net income before income tax expense	24,283	713,173	53,726	991,446
Income tax expense	11,100	263,370	24,400	377,000
	-----	-----	-----	-----
Net income	\$13,183	\$449,803	\$29,326	\$614,446
	=====	=====	=====	=====
Net income per basic common share	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.05
	-----	-----	-----	-----
Weighted average number of basic common shares outstanding	12,738,390	12,624,959	12,726,168	12,624,959
	=====	=====	=====	=====
Net income per diluted common share	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.05
	-----	-----	-----	-----

Weighted average number of diluted common shares outstanding	13,229,112 =====	12,938,087 =====	13,204,616 =====	12,928,034 =====
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See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Cash Flows (Unaudited)

	Six Month Periods Ended	
	July 2, 2011 -----	June 26, 2010 -----
Cash flows from operating activities:		
Net income	\$ 29,326	\$ 614,446
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation & amortization	363,874	358,189
Share-based compensation	112,491	32,054
Deferred taxes	14,200	--
Excess tax benefit from stock options exercised	(32,050)	--
Changes in:		
Accounts receivable trade	89,036	(107,834)
Inventories	(528,120)	123,242
Prepaid expenses	(45,970)	14,294
Accounts payable	133,531	37,242
Accrued expenses	(291,637)	398,306
	-----	-----
Net cash provided by (used in) operating activities	(155,319)	1,469,939
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(316,795)	(341,760)
	-----	-----
Net cash used in investing activities	(316,795)	(341,760)

Cash flows from financing activities:		
Payment of capital lease obligations	(138,210)	(158,329)
Excess tax benefit from stock options exercised	32,050	--
Proceeds from issuance of common stock	35,274	--
	-----	-----
Net cash used in		
financing activities	(70,886)	(158,329)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(543,000)	969,850
Cash and cash equivalents at beginning of period	1,803,222	1,073,600
	-----	-----
Cash and cash equivalents at end of period	\$ 1,260,222	\$ 2,043,450
	=====	=====
Supplemental cash flow information:		
Cash paid for taxes	\$ 76,500	\$ --
Interest paid	\$ 17,736	\$ 16,477

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Notes to Financial Statement  
(Unaudited)

(1) Nature of Business

The Company provides advanced material solutions to the electronics, robotics, 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.

The Company sells into several end markets including the wireless communications infrastructure market, high-performance microprocessor market, motor controller market, and other microelectronic and structural markets. 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 25, 2010 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.

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 25, 2010.

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

### (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 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.

The following table presents the calculation of both basic and diluted EPS:

	Fiscal Quarters Ended		Six Month Periods Ended	
	July 2, 2011 -----	June 26, 2010 -----	July 2, 2011 -----	June 26, 2010 -----
Basic EPS Computation:				
Numerator:				
Net income	\$ 13,183	\$ 449,803	\$ 29,326	\$ 614,446
Denominator:				
Weighted average Common shares Outstanding	12,738,390	12,624,959	12,726,168	12,624,959
Basic EPS	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.05
Diluted EPS Computation:				
Numerator:				
Net income	\$ 13,183	\$ 449,803	\$ 29,326	\$ 614,446
Denominator:				
Weighted average Common shares Outstanding	12,738,390	12,624,959	12,726,168	12,624,959



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Dilutive effect of stock options	490,722	313,128	478,448	303,075
Total Shares	13,229,112	12,938,087	13,204,616	12,928,034
Diluted EPS	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.05

(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 July 2, 2011 and June 26, 2010. 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 shared under the Plan. During the three and six months ended June 26, 2010, the Company recognized \$19,218 and \$32,054, 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 issued 20,000 and 63,750 share, respectively, as a result of option exercises.

(5) Inventories

Inventories consist of the following:

	July 2, 2011	December 25, 2010
	-----	-----
Raw materials	\$ 406,468	\$ 360,306
Work in process	387,132	298,004
Finished goods	1,258,278	865,448
	-----	-----
Inventories	\$ 2,051,878	\$ 1,523,758
	=====	=====

(6) Accrued Expenses

Accrued expenses consist of the following:

	July 2, 2011	December 25, 2010
	-----	-----
Accrued legal and accounting	\$ 59,132	\$ 51,200

Accrued payroll	355,583	578,021
Accrued other	177,907	255,038
	-----	-----
	\$ 592,622	\$ 884,259
	=====	=====

(7) Line of Credit and Equipment Lease Facility Agreements

The Company has a \$1 million revolving line of credit and a \$1.25 million equipment finance facility with Sovereign Bank through maturity in May 2012. The line of credit 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 line of credit and the equipment finance facility 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 rolling four quarter debt service coverage ratio as well as targeted debt to equity and current ratios. At July 2, 2011, the Company was in compliance with these covenants. The Company believes but can give no assurance that it could obtain similar lease facilities from other lenders. At July 2, 2011 there were no borrowings under this line of credit. At July 2, 2011, the Company had capital lease obligations outstanding totaling \$290,518 related to equipment financed by the Sovereign equipment lease and finance facility and \$959,482 available remaining on the Sovereign lease line.

(8) Income Taxes

At December 25, 2010, the Company had approximately \$1,731,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

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 \$1,118,129 and \$1,100,279 on the Company's balance sheet at July 2, 2011 and December 25, 2010, 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.

As of July 2, 2011 production equipment included \$228 thousand of construction in progress and the company the Company had \$230 thousand in outstanding commitments to purchase production equipment. The Company intends to finance production equipment with existing cash balances and funds generated by operations or with the Sovereign equipment finance facility.

## 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 25, 2010.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statemen