

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 September 28, 2024

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 CORP.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

04-2832509
(I.R.S. Employer
Identification No.)

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

02766-2102
(Zip Code)

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

CPS Technologies Corp.
111 South Worcester Street
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 every Interactive Data File required to be submitted 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 such files). ☒ 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, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15U.S.C. 7262(b)) by the registered public firm that prepared or issued its audit report.
☐ Yes ☒ No

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$0.01 par value

Trading Symbol(s)
CPSH

Name of each exchange on which registered
NASDAQ Capital Markets

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 October 28, 2024: 14,525,960.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORP.
Balance Sheets (Unaudited)

	September 28, 2024	December 30, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,689,004	\$ 8,813,626
Marketable securities, at fair value	1,020,952	—
Accounts receivable-trade, net	3,654,549	4,389,155
Accounts receivable-other	362,312	83,191
Inventories, net	4,433,412	4,581,930
Prepaid expenses and other current assets	506,126	276,349
Total current assets	14,666,355	18,144,251
Property and equipment:		
Production equipment	9,953,702	11,271,982
Furniture and office equipment	891,921	952,883
Leasehold improvements	988,804	985,649
Total cost	11,834,427	13,210,514
Accumulated depreciation and amortization	(10,200,302)	(11,936,004)
Construction in progress	448,184	281,629
Net property and equipment	2,082,309	1,556,139
Right-of-use lease asset	224,000	332,000
Deferred taxes, net	2,249,985	1,569,726
Total assets	\$ 19,222,649	\$ 21,602,116

See accompanying notes to financial statements.

(continued)

CPS TECHNOLOGIES CORP.
Balance Sheets (Unaudited)
(concluded)

	September 28, 2024	December 30, 2023
LIABILITIES AND STOCKHOLDERS` EQUITY		
Current liabilities:		
Note payable, current portion	\$ 20,103	\$ 46,797
Accounts payable	2,497,055	2,535,086
Accrued expenses	840,757	1,075,137
Deferred revenue	160,412	251,755
Lease liability, current portion	160,000	160,000
Total current liabilities	3,678,327	4,068,775
Note payable less current portion	–	8,090
Deferred revenue – long term	31,277	31,277
Long term lease liability	64,000	172,000
Total liabilities	3,773,604	4,280,142
Commitments and contingencies (note 7)		
Stockholders` equity:		
Common stock, \$0.01 par value, authorized 20,000,000 shares; issued 14,661,487 shares; outstanding 14,525,960 shares at September 28, 2024 and issued 14,601,487 shares; outstanding 14,519,215 shares at December 30, 2023	146,615	146,015
Preferred stock, no shares issued or outstanding	–	–
Additional paid-in capital	40,520,215	40,180,893
Accumulated other comprehensive income	17,446	–
Accumulated deficit	(24,895,093)	(22,754,796)
Less cost of 135,527 common shares repurchased at September 28, 2024 and 82,272 common shares repurchased at December 30, 2023	(340,138)	(250,138)
Total stockholders` equity	15,449,045	17,321,974
Total liabilities and stockholders` equity	\$ 19,222,649	\$ 21,602,116

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORP.
Statements of Operations and Other Comprehensive Income (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Revenues:				
Product sales	\$ 4,247,116	\$ 6,285,041	\$ 15,190,063	\$ 20,803,447
Total revenues	4,247,116	6,285,041	15,190,063	20,803,447
Cost of product sales	4,770,548	5,049,177	15,037,177	15,126,621
Gross profit (loss)	(523,432)	1,235,864	152,886	5,676,826
Selling, general, and administrative expense	963,064	1,105,227	3,214,831	4,121,099
Income (loss) from operations	(1,486,496)	130,637	(3,061,945)	1,555,727
Interest income (expense), net	71,650	78,181	241,686	176,325
Other income (expense), net	(676)	(1,228)	159	(4,130)
Net income (loss) before income tax	(1,415,522)	207,590	(2,820,100)	1,727,922
Income tax provision (benefit)	(372,683)	36,509	(679,803)	497,137
Net income (loss)	\$ (1,042,839)	\$ 171,081	\$ (2,140,297)	\$ 1,230,785
Other comprehensive income				
Net unrealized gains on available for sale securities	8,745	—	17,446	—
Total other comprehensive income	8,745	—	17,446	—
Total comprehensive income (loss)	\$ (1,034,094)	\$ 171,081	\$ (2,122,851)	\$ 1,230,785
Net income (loss) per basic common share	\$ (0.07)	\$ 0.01	\$ (0.15)	\$ 0.08
Weighted average number of basic common shares outstanding	14,525,664	14,517,364	14,521,365	14,487,873
Net income (loss) per diluted common share	\$ (0.07)	\$ 0.01	\$ (0.15)	\$ 0.08
Weighted average number of diluted common shares outstanding	14,525,664	14,636,241	14,521,365	14,632,591

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORP.
STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 28, 2024 AND SEPTEMBER 30, 2023

	Common Stock			Accumulated other comprehensive income	Accumulated deficit	Stock repurchased	Total stockholders' equity
	Number of shares issued	Par Value	Additional paid-in capital				
Balance at June 29, 2024	14,601,487	\$ 146,015	\$40,386,335	\$ 8,701	\$(23,852,254)	\$ (250,138)	\$ 16,438,659
Share-based compensation expense	—	—	44,480	—	—	—	44,480
Employee option exercises	60,000	600	89,400	--	--	(90,000)	—
Other comprehensive income	—	—	—	8,745	—	—	8,745
Net loss	—	—	—	—	(1,042,839)	—	(1,042,839)
Balance at September 28, 2024	14,661,487	\$ 146,615	\$40,520,215	\$ 17,446	\$(24,895,093)	\$ (340,138)	\$ 15,449,045

	Common Stock			Accumulated other comprehensive income	Accumulated deficit	Stock repurchased	Total stockholders' equity
	Number of shares issued	Par Value	Additional paid-in capital				
Balance at December 30, 2023	14,601,487	\$ 146,015	\$40,180,893	\$ —	\$(22,754,796)	\$ (250,138)	\$ 17,321,974
Share-based compensation expense	—	—	249,922	—	—	—	249,922
Employee option exercises	60,000	600	89,400	--	--	(90,000)	—
Other comprehensive income	—	—	—	17,446	—	—	17,446
Net loss	—	—	—	—	(2,140,297)	—	(2,140,297)
Balance at September 28, 2024	14,661,487	\$ 146,615	\$40,520,215	\$ 17,446	\$(24,895,093)	\$ (340,138)	\$ 15,449,045

	Common Stock			Accumulated deficit	Stock repurchased	Total stockholders' equity
	Number of shares issued	Par Value	Additional paid-in capital			
Balance at July 1, 2023	14,546,487	\$ 145,465	\$39,978,453	\$(23,065,388)	\$ (111,938)	\$ 16,946,592
Share-based compensation expense	—	—	27,941	—	—	27,941
Employee option exercises	55,000	550	145,400	—	(138,200)	7,750
Net income	—	—	—	171,081	—	171,081
Balance at September 30, 2023	14,601,487	\$ 146,015	\$40,151,794	\$(22,894,307)	\$ (250,138)	\$ 17,153,364

	Common Stock			Accumulated deficit	Stock repurchased	Total stockholders' equity
	Number of shares issued	Par Value	Additional paid-in capital			
Balance at December 31, 2022	14,460,486	\$ 144,605	\$39,726,851	\$(24,125,092)	\$ (40,848)	\$ 15,705,516
Share-based compensation expense	—	—	175,698	—	—	175,698
Employee options exercised	141,001	1,410	249,245	—	(209,290)	41,365
Net income	—	—	—	1,230,785	—	1,230,785
Balance at September 30, 2023	14,601,487	\$ 146,015	\$40,151,794	\$(22,894,307)	\$ (250,138)	\$ 17,153,364

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORP.
Statements of Cash Flows (Unaudited)

	Nine Months Ended	
	September 28, 2024	September 30, 2023
Cash flows from operating activities:		
Net income (loss)	\$ (2,140,297)	\$ 1,230,785
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	369,698	363,308
Share-based compensation	249,922	175,698
Deferred taxes	(680,259)	423,969
Changes in:		
Accounts receivable-trade	734,606	(1,228,476)
Accounts receivable-other	(279,122)	668,625
Inventories	148,518	47,944
Prepaid expenses and other current assets	(145,063)	(126,234)
Accounts payable	(38,030)	314,262
Accrued expenses	(234,379)	246,437
Deferred revenue	(91,343)	(1,045,785)
Net cash provided by (used in) operating activities	(2,105,749)	1,070,533
Cash flows from investing activities:		
Purchases of property and equipment	(895,868)	(567,349)
Purchase of marketable securities	(1,003,506)	—
Net cash used in investing activities	(1,899,374)	(567,349)
Cash flows from financing activities:		
Proceeds from exercise of employee stock options, net of repurchases	—	41,365
Payments on note payable	(34,784)	(32,446)
Net cash provided by (used in) financing activities	(34,784)	8,919
Net increase (decrease) in cash and cash equivalents	(4,039,907)	512,103
Cash and cash equivalents at beginning of period	8,813,626	8,266,753
Cash, cash equivalents and restricted cash at end of period	\$ 4,773,719	\$ 8,778,856
Less: Restricted cash at end of period	84,715	—
Cash and cash equivalents at end of period	\$ 4,689,004	\$ 8,778,856
Supplemental disclosures of cash flows information:		
Cash paid for income taxes	432	109,456
Cash paid for interest	1,917	4,130
Supplemental disclosures of non-cash activity:		
Share repurchases as a reduction of stock option exercise proceeds	90,000	209,290

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORP.
Notes to Financial Statements
(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.

Using its proprietary MMC technology, the Company also produces light-weight armor, particularly for extreme environments and heavy threat levels.

The Company also engages in research and development, in some cases government funded and in others internally funded, focused on developing new products in response to customer requirements. These products expand our offerings in existing markets and enable penetration into new markets.

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

(2) Summary of Significant Accounting Policies

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 30, 2023* 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 in the Registrant's Annual Report on Form 10-K for the year ended *December 30, 2023* and in CPS's other SEC reports, which are accessible on the SEC's website at www.sec.gov and the Company's website at www.cpstechologiesolutions.com.

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

(3) Cash, Cash Equivalents and Restricted Cash

Our cash and cash equivalents are carried at fair value and consist primarily of cash, money market funds, cash deposits with commercial banks, U.S. government bonds and notes, and highly rated direct short-term instruments with an original maturity of 90 days or less. The Company has a restricted cash account in the amount of \$84,715, as of September 28, 2024 to cover an open letter of credit for overseas purchases. Upon presentation of documents evidencing shipment of these goods, the issuing bank will draw on this account and make payment to the vendor. There was no restricted cash as of December 30, 2023.

	September 28, 2024	December 30, 2023
Cash and cash equivalents	\$ 4,689,004	—
Restricted cash ¹	\$ 84,715	—
Total cash, cash equivalents and restricted cash	\$ 4,773,719	—

(1) Recognized in prepaid expenses and other current assets on our Balance Sheet.

(4) Marketable Securities

Investments consist of U.S. Treasury Bills with maturities up to one year. Since it is not currently managements intention to hold these debt securities until the maturity dates, these have been classified as available-for-sale ("AFS") and are recorded on the balance sheet at fair value, with changes in fair value recorded as a component of other comprehensive income.

(5) Fair value of Marketable Securities

ASC 820, *Fair Value Measurements* ("ASC 820") states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tiered fair value hierarchy, which prioritizes which inputs should be used in measuring fair value, is comprised of: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than quoted prices in active markets that are observable either directly or indirectly and (Level III) unobservable inputs for which there is little or no market data. The fair value hierarchy requires the use of observable market data when available in determining fair value. CPS' marketable securities consist solely of US Government bonds with a maturity of 12 months or less and which fall under Level II of the fair value hierarchy. The fair value of these bonds as of September 28, 2024 was \$1,020,952. CPS held no investments in marketable securities as of December 30, 2023.

	September 28, 2024	December 30, 2023
Cost basis	\$ 1,003,506	—
Unrealized gain	\$ 17,446	—
Total fair value	\$ 1,020,952	—

(6) 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. Had there been a profit in Q3 2024, the dilutive effect would have been 1,471 shares.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Basic EPS Computation:				
Numerator:				
Net income (loss)	\$ (1,042,839)	\$ 171,081	\$ (2,140,297)	\$ 1,230,785
Denominator:				
Weighted average				
Common shares				
Outstanding	14,525,664	14,517,364	14,521,365	14,487,873
Basic EPS	\$ (0.07)	\$ 0.01	\$ (0.15)	\$ 0.08
Diluted EPS Computation:				
Numerator:				
Net income (loss)	\$ (1,042,839)	\$ 171,081	\$ (2,140,297)	\$ 1,230,785
Denominator:				
Weighted average				
Common shares				
Outstanding	14,525,664	14,517,364	14,521,365	14,487,873
Dilutive effect of stock options	—	118,877	—	144,718
Total Shares	14,525,664	14,636,241	14,521,365	14,632,591
Diluted EPS	\$ (0.07)	\$ 0.01	\$ (0.15)	\$ 0.08

(7) Commitments & Contingencies

Commitments

Operating Leases

The Company has *one* real estate lease expiring in *February 2026*. CPS also has a few other leases for equipment which are minor in nature and are generally short-term in duration. *None* of these equipment leases have been capitalized as the Company elected an accounting policy for short-term leases, which allows lessees to avoid recognizing right-of-use assets and liabilities for leases with terms of 12 months or fewer.

The real estate lease expiring in *2026* (the "Norton facility lease") is included as a right-of-use lease asset and corresponding lease liability on the balance sheet. This asset and liability was recognized based on the present value of lease payments over the lease term using the Company's incremental borrowing rate at commencement date. The Company's lease agreements do *not* contain any material residual value guarantees or material restrictive covenants.

The Norton facility lease comprises approximately 38 thousand square feet. The lease is 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 renew the lease starting in *March 2026* through *February 2032*. Annual rental payments range from \$160 thousand to \$165 thousand through maturity.

The following table presents information about the amount, timing and uncertainty of cash flows arising from the Company's capitalized operating lease as of *September 28, 2024*:

(Dollars in Thousands)

Maturity of capitalized lease liabilities		Lease payments
2024	\$	41
2025		165
2026		28
Total undiscounted operating lease payments	\$	234
Less: Imputed interest		(10)
Present value of operating lease liability	\$	224

Balance Sheet Classification

Current lease liability	\$	160
Long-term lease liability		64
Total operating lease liability	\$	224

Other Information

Remaining lease term for capitalized operating lease (months)	17
Discount rate for capitalized operating leases	6.6%

Operating Lease Costs and Cash Flows

Operating lease cost and cash paid was \$ 41 thousand during the *third* quarter of 2024 and \$123 thousand for the *nine* months ended *September 28, 2024*. These costs are related to its long-term operating lease. All other short-term leases were immaterial.

Finance Leases

The company does *not* have any finance leases.

(8) 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.

During the quarter ended *September 28, 2024*, no stock options were granted to employees under the Company's 2020 Equity Incentive Plan Stock Incentive Plan (the "Plan") and no stock options were granted to outside directors during the quarter ended *September 28, 2024*. During the quarter ended *September 30, 2023*, a total of 229,500 stock options were granted to employees under the Company's 2020 Equity Incentive Plan Stock Incentive Plan (the "Plan") and no stock options were granted to outside directors during the quarter ended *September 30, 2023*.

During the *three* and *nine* months ended *September 28, 2024*, there were 60,000 options exercised and corresponding shares issued at a weighted average price of \$1.50. During the *three* and *nine* months ended *September 28, 2024*, 53,100 and 69,200 options were forfeited, respectively, and none expired. During the *three* and *nine* months ended *September 30, 2023*, there were 55,000 and 141,001 options exercised and corresponding shares issued at a weighted average price of \$2.65 and \$1.78, respectively. During the *three* and *nine* months ended *September 30, 2023*, 27,400 and 233,000 options were forfeited and none and 25,000 expired, respectively.

During the *three* and *nine* months ended *September 28, 2024*, the Company repurchased 53,255 shares for employees to facilitate their exercise of stock options. During the *three* and *nine* months ended *September 30, 2023*, the Company repurchased 47,329 and 72,256 shares, respectively, for employees to facilitate their exercise of stock options.

There were also 984,800 options outstanding at a weighted average price of \$ 2.68 with a weighted average remaining term of 6.73 years as of *September 28, 2024*, and there were 543,800 options exercisable at a weighted average price of \$ 2.58 with a weighted average remaining term of 5.13 years as of *September 28, 2024*. The Plan, as amended, is authorized to issue 1,500,000 shares of common stock. As of *September 28, 2024*, there were 626,400 shares available for future grants under the 2020 Plan and 248,400 shares outstanding under the 2009 Plan.

As of *September 28, 2024*, there was \$604 thousand of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan; that cost is expected to be recognized over a weighted average period of 3.15 years.

During the *three* and *nine* months ended *September 28, 2024*, the Company recognized \$44,480 and \$249,922, respectively, as shared-based compensation expense related to previously granted shares under the Plan. These amounts are included as a component of selling, general and administrative expenses in the statement of operations.

During the *three* and *nine* months ended *September 30, 2023*, the Company recognized \$27,941 and \$175,698, respectively, as shared-based compensation expense related to previously granted shares under the Plan. These amounts are included as a component of selling, general and administrative expenses in the statement of operations.

(9) Inventories

Inventories consist of the following:

	September 28, 2024	December 30, 2023
Raw materials	\$ 2,660,125	\$ 2,861,333
Work in process	1,861,794	1,493,582
Finished goods	423,453	537,975
Total inventory	4,945,372	4,892,890
Reserve for obsolescence	(511,960)	(310,960)
Inventories, net	<u>\$ 4,433,412</u>	<u>\$ 4,581,930</u>

(10) Accrued Expenses

Accrued expenses consist of the following:

	September 28, 2024	December 30, 2023
Accrued legal and accounting	\$ 80,796	\$ 86,000
Accrued payroll and related expenses	402,118	649,201
Accrued product returns	288,000	288,000
Accrued other	69,843	51,936
	<u>\$ 840,757</u>	<u>\$ 1,075,137</u>

(11) Line of Credit

In May 2023, the Company terminated its \$3.0 million revolving line of credit (LOC) with Massachusetts Business Development Corporation (BDC). A new LOC in the amount of \$3.0 million was entered into with Rockland Trust Company. The LOC is secured by the accounts receivable and other assets of the Company and has an interest rate of the National Prime Rate as published by the Wall Street Journal (8.0% at September 28, 2024). On September 28, 2024, the Company had \$0 of borrowings under this LOC and its borrowing base at the time, consisting of eligible accounts receivable, would have permitted an additional \$2.9 million to have been borrowed. The line of credit remains in effect and has been extended to August 5, 2025.

(12) Note Payable

In March 2020, the Company acquired inspection equipment for a price of \$ 208 thousand. The full amount was financed through a 5 year note payable with a third-party equipment finance company. The note is collateralized by the equipment and is being paid in monthly installments of \$ 4 thousand, consisting of principal plus interest at a rate of 6.47%.

The aggregate maturities of the notes payable based on the payment terms of the agreement are as follows:

Remaining in:	Payments due by period
FY 2024	\$ 12,013
FY 2025	\$ 8,090
Total	<u>20,103</u>

Total interest expense on notes payable during 2024 was \$1,917.

(13) Income Taxes

A valuation allowance against deferred tax assets 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. Management has determined that a valuation allowance is not needed as it expects that the deferred tax asset will be fully utilized.

For the three and nine months ended September 28, 2024 the deferred tax asset was increased \$372,683 and \$680,259 for the estimated tax benefit on Q3 and year to date net losses, respectively.

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 30, 2023 and in CPS's other SEC reports, which are accessible on the SEC's website at www.sec.gov and the Company's website at www.cpsstechnologyolutions.com.

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. This includes the impact of the Russian invasion of Ukraine, the ongoing conflict in Gaza and Lebanon and other conflicts and potential conflicts throughout the world. It also includes the impact of a strong dollar on the prices the Company charges to foreign customers, which are discussed in Item 3 of this report. 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 30, 2023, 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 30, 2023.

Overview

Products we provide include baseplates for motor controllers used in high-speed electric trains, subway cars, wind turbines, and hybrid and electric vehicles. We provide baseplates and housings used in radar, satellite and avionics applications. We provide lids and heat spreaders used with high performance integrated circuits for use in internet switches and routers. We provide baseplates and housings used in modules built with Wide Band Gap Semiconductors like Silicon Carbide ("SiC") and Gallium Nitride ("GaN"), collectively Metal Matrix Composites ("MMC"). CPS also assembles housings and packages for hybrid circuits. These housings and packages may include MMC components; they may include components made of more traditional materials such as aluminum, cold rolled steel and Kovar. Using its proprietary MMC technology, the Company also produces light-weight vehicle armor, particularly for extreme environments and heavy threat levels. In addition the Company engages in research and development activities with the goal of developing new products that address challenging customer requirements. These activities typically leverage the company's extensive knowledge base in the development and volume manufacturing of advanced materials.

CPS's products are custom rather than catalog items. They are made to customers' designs and are used as components in systems built and sold by our customers. At any point in time our product mix will consist of some products with on-going production demand, and some products which are in the prototyping or evaluation stages at our customers. The Company seeks to have a portfolio of products which include products in every stage of the technology adoption lifecycle at our customers. CPS' growth is dependent upon the level of demand for those products already in production, as well as its success in achieving new "design wins" for future products.

As a manufacturer of highly technical and custom products, the Company incurs fixed costs needed to support the business, but which do not vary significantly with changes in sales volume. These costs include the fixed costs of applications such as engineering, tooling design and fabrication, process engineering, and others. Accordingly, particularly given our current size, changes in sales volume generally result in even greater changes in financial performance on a percentage basis as fixed costs are spread over a larger or smaller base. Sales volume is therefore a key financial metric used by management.

The Company believes the underlying demand for MMC, housings for hybrid circuits and our proprietary armor solution is growing as the electronics and other industries seek higher performance, higher reliability, and reduced costs. CPS believes that the Company is well positioned to offer our solutions to current and new customers as these demands grow.

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 Corp.

Results of Operations for the Third Fiscal Quarter of 2024 (Q3 2024) Compared to the Third Fiscal Quarter of 2023 (Q3 2023): (all \$ in 000 's)

Revenues totaled \$4,247 in Q3 2024 compared with \$6,285 generated in Q3 2023, a decrease of 32%. This decrease was mainly due to the completion of the armor contract for the US Navy in Q2 2024 as compared to 2023. In addition, one of the Company's major customers in 2023 significantly reduced their purchases in Q3 2024 due to their having excess inventory that they are in the process of working down.

Gross loss in Q3 2024 totaled \$523 or -12% of sales. This compares with gross profit in Q3 2023 of \$1,236 or 20% of sales. This percentage decrease was mainly due to the impact of fixed costs on significantly lower revenues. In addition, CPS opened a third shift effective the last week of August. During Q3 those folks were added to payroll and came in during the first shift to work alongside our experienced operators for training, which added to the overall cost of goods sold for the quarter.

Selling, general and administrative (SG&A) expenses totaled \$963 in Q3 2024 compared with SG&A expenses of \$1,105 in Q3 2023, a 13% reduction year over year. This decrease was primarily due to the reduction in variable compensation as a result of weaker results from operations in Q3 2024 as compared to Q3 2023. In addition, new hires in 2023 resulted in increased payroll taxes and some overlap in the same position (duplicate salaries) in Q3 2023.

The Company experienced an operating loss of \$1,486 in Q3 2024 compared with an operating profit of \$131 in Q3 2023. This decrease was a result of the decreased gross margin, partially offset by the decrease in SG&A expenses. The net loss for Q3 2024 was \$1,043 compared to a net profit in Q3 2023 of \$171.

Results of Operations for the First Nine Months of 2024 Compared to the First Nine Months of 2023 (all \$ in 000s)

Total revenue was \$15,190 in the first nine months of 2024, a 27% decrease compared with total revenue of \$20,803 in the first nine months of 2023. This decrease was mainly due to the completion of our armor order for the US Navy in 2024 as compared to 2023. In addition, one of the Company's major customers in 2023 significantly reduced their purchases during 2024 due to their having excess inventory that they are in the process of working down.

Gross margin in the first nine months of 2024 totaled \$153 or 2% of sales. In the first nine months of 2023 gross margin totaled \$5,677 or 27% of sales. This decrease was due to the decrease in revenue and the decreased coverage of our fixed costs, as well as the increased costs incurred by the training incurred during Q3 for the addition of the third shift.

Selling, general and administrative (SG&A) expenses were \$3,215 during the first nine months of 2024, down 22% compared with SG&A expenses of \$4,121 in the first nine months of 2023. Decreased variable compensation accruals due to lower 2024 profitability as well as a further reduction in selling and administrative payroll expense.

During the first nine months of 2024, the Company had net interest income of \$242. This compares with interest income of \$176 realized during the first nine months of 2023. The increase in interest income is primarily due to higher interest rates.

In the first nine months of 2024 the Company had an operating loss of \$3,062 compared with operating income \$1,556 in the same period last year. The net loss for the first nine months of 2024 totaled \$2,140 versus net income of \$1,231 in the first nine months of 2023.

CPS does not rely on raw materials from Ukraine, Russia, Israel, Lebanon or Gaza. As a result, we do not believe that the Russian invasion of Ukraine or the conflict surrounding Israel will have a direct impact on our results. Nevertheless, there could be an indirect impact regarding supply chain and inflationary issues as a result of these conflicts.

Inflation has had an impact on our costs. Thus far, we have been able to pass along these increases to our customers, but there is no guarantee that we will be able to continue this in the future. In addition, there is often a lag between when the costs increase and when we can adjust customer prices. Some of our larger customers will have pricing agreements, typically for one year, and we must wait for those agreements to end before making any pricing adjustments. Further, several of our larger customers buy from our major competitor in Japan. The devaluation of the Japanese yen related to the US dollar has made it more difficult for us to increase our prices in an amount necessary to fully make up for higher costs.

These factors combine to create a higher degree of uncertainty regarding future financial performance.

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

The Company's liquid assets at September 28, 2024 consist of cash and cash equivalents of \$4,689, restricted cash of \$85 and marketable debt securities with a fair value of \$1,021. This compares to cash and cash equivalents at December 30, 2023 of \$8,814 and no restricted cash or marketable debt securities held at December 30, 2023. The decrease in cash was due primarily to a decrease in working capital, higher expenditures for capital equipment acquired to improve future performance as well as the operating losses incurred in 2024.

Accounts receivable at September 28, 2024 totaled \$4,017 compared with \$4,472 at December 30, 2023. Days Sales Outstanding (DSO) increased from 60 days at the end of 2023 to 78 days (calculated based on trade receivables only) at the end of Q3 2024. The increase in DSO was due to several large payments due at the end of Q3 2024 being delayed to the beginning of Q4 2024, as well as significantly higher sales volumes at the end of Q3 2024 as compared to the beginning of Q3 2024. The accounts receivable balances at December 30, 2023, and September 28, 2024 were both net of an allowance for doubtful accounts of \$10.

Inventories totaled \$4,433 at September 28, 2024 compared with inventory totaling \$4,582 at December 30, 2023. The inventory turnover in the most recent four quarters ending Q3 2024 was 4.6 times (based on a 5 quarter end average) compared with 4.3 times averaged during the four quarters of 2023.

The Company expects it will continue to be able to fund its operations for the remainder of 2024 and 2025 from operations and existing cash balances.

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.

Management believes that existing cash balances 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.

Contractual Obligations (all \$ in 000's unless otherwise noted)

In May 2023, the Company terminated its \$3.0 million revolving line of credit (LOC) with Massachusetts Business Development Corporation (BDC). A new LOC in the amount of \$3.0 million was entered into with Rockland Trust Company. The LOC is secured by the accounts receivable and other assets of the Company and has an interest rate of the National Prime Rate as published by the Wall Street Journal. On September 28, 2024, the Company had \$0 of borrowings under this LOC and its borrowing base at the time would have permitted an additional \$2.9 million to have been borrowed.

In March 2020, the company acquired a scanning acoustic microscope for a price of \$208 thousand. The full amount was financed through a 5 year note payable with a financing company. The note is collateralized by the microscope and is being paid in monthly installments of \$4 thousand, consisting of principal plus interest at a rate of 6.47%

The Company has one real estate lease expiring in February 2026. CPS also has a few other leases for equipment which are minor in nature and are generally short-term in duration. None of these have been capitalized. (Note 7, Leases)

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

The Company is not significantly exposed to the direct impact of interest rate changes or foreign currency fluctuations. Nevertheless, one of the Company's major competitors is located in Japan. The relative strength of the US dollar versus the Japanese yen can have a negative impact on the Company's ability to raise prices when necessary to offset increasing costs. The Company has not used derivative financial instruments.

Although CPS has not been directly impacted by the war in Ukraine, potential supply chain disruptions and its impact on energy costs are areas where we could be impacted in the future.

Inflation is an area where we have seen some impact on our business. We have seen significant price increases in commodity raw materials, such as aluminum, as well as increases in other costs of doing business. As we receive new orders we have been able to pass on most of these costs to our customers. In the case of longer term pricing agreements, we have been able to pass on some of these costs through surcharges and in other ways to mitigate the impact on our profit. As inflation continues, our ability to continue to absorb higher costs by raising customer prices cannot be guaranteed.

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 officers have 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 2023 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 President and 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](#)

101.INS Inline XBRL Instance Document

101.SCH Inline XBRL Taxonomy Extension Schema Document

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

(b) Reports on Form 8-K:

[Submission of Matters to a Vote of Security Holders](#)

[Departure of Directors or Certain Officers](#)

[Changes in Registrant's Certifying Accountants](#)

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: November 1, 2024

/s/Brian T. Mackey

Brian T. Mackey

President and Chief Executive Officer

Date: November 1, 2024

/s/ Charles K. Griffith Jr.

Charles K. Griffith Jr.

Chief Financial Officer

**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**

I, Brian T. Mackey, certify that:

I have reviewed this quarterly report on Form 10-Q;

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation (the "Evaluation Date"); and
- d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

/s/ Brian T. Mackey

Brian T. Mackey

President and Chief Executive Officer

**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**

I, Charles K. Griffith Jr., certify that:

I have reviewed this quarterly report on Form 10-Q;

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation (the "Evaluation Date"); and
- d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably like to materially affect, the registrant's internal control over financial reporting.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

/s/ Charles K. Griffith Jr.

Charles K. Griffith Jr.

Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CPS Technologies Corporation (the "Company") on Form 10-Q for the three month period ended June 29, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian T. Mackey, President and Chief Executive Officer of the Company, and I, Charles K. Griffith Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2024
/s/ Brian T. Mackey
Brian T. Mackey
President and Chief Executive Officer

Date: November 1, 2024
/s/ Charles K. Griffith Jr.
Charles K. Griffith Jr.
Chief Financial Officer