CPS TECHNOLOGIES CORP/DE/
Form 10-K
March 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 29, 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)

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)

Registrant's telephone no., including area code: 508-222-0614

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value, $0.01 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

[ ] Yes [X] No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting Common Stock held by non-affiliates of the Registrant was $28.0 million based on the average of the reported closing bid and asked prices for the Common Stock as of the last business day of the registrant's most recently completed second fiscal quarter as reported on the OTC Bulletin Board.

Number of shares of Common Stock outstanding as of February 26, 2013: 12,871,759 shares.

Documents incorporated by reference.

Part I

Item 1. Business.

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.

Concurrently, CPS is participating in certain end markets that are at an earlier stage of the adoption lifecycle. Management believes these end markets will generate additional growth in both the intermediate and longer term. An example of such an end market is motor controllers for hybrid automotives and trucks. In 2012, the Company's baseplates were available in several models of 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 QuicksetTM Injection Molding Process ('Quickset Process') and the QuickCastTM 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.

Overview of Markets and Products

Electronics Markets Overview

Consumer demand continues to motivate the electronics industry to produce products which:
- operate at higher speeds;
- are smaller in size; and
- operate with higher reliability.

While these three requirements result in products of ever-increasing performance, these requirements also create a fundamental challenge for the designer to manage the heat generated by the system moving at higher speeds and/or higher power. Smaller assemblies further concentrate the heat and increase the difficulty of removing it.

This challenge is found at each level in an electronic assembly: at the integrated circuit level speeds are increasing and line widths are decreasing; at the circuit board level higher density devices are placed closer together on circuit boards; and at the system level higher density circuit boards are being assembled closer together.

The designer must resolve the thermal management issues or the system will fail. For every 10 degree Celsius rise in temperature above a threshold level, the reliability of a circuit is decreased by approximately half. In addition, heat usually causes changes in parameters which degrade the performance of both active and passive electronic components.

To resolve thermal management issues the designer is primarily concerned with two properties of the materials which comprise the system: 1) thermal conductivity, which is the rate at which heat moves through materials, and 2) thermal expansion rate (Coefficient of Thermal Expansion or CTE) which is the rate at which materials expand or contract as temperature changes. The designer must ensure that the temperature of an electronic assembly stays within a range in which the differences in the expansion rates of the materials in the assembly do not cause a failure from breaking, delaminating, etc.

CPS combines at the microstructural level a ceramic with a metal to produce a metal matrix composite which has the thermal conductivity needed to remove heat, and a thermal expansion rate which is sufficiently close to other components in the assembly to ensure the assembly is reliable. The ceramic is silicon carbide (SiC), the metal is aluminum (Al), and the composite is aluminum silicon carbide (AlSiC), a metal-matrix composite. CPS can adjust the thermal expansion rate of AlSiC components to match the specific application by modifying the amount of SiC compared to the amount of Al in the component.

CPS produces products made of AlSiC in the shapes and configurations required for each application, for example, in the form of lids, substrates, housings, etc. Every product is made to a customer’s blueprint. The CPS process technology allows most products to be made to net shape, requiring no or little final machining.

Although our focus today is on AlSiC components, we believe our proprietary Quickset- Quickcast process technology can be used to produce other metal-matrix composites which may meet future market needs.

Today, the problem of thermal management is most acute in high-performance, high-density applications such as high-performance microprocessors, application-specific integrated circuits for internet routers and switches, motor controllers for trains, subway cars and wind turbines, and components for satellite communications. However, as the trends towards faster speeds, reduced size and increased reliability continue, and as high-density circuitry is used in a larger number of applications, we believe our products will be used in an increasing number of applications across many end markets.

Structural Markets Overview

Structural applications perform primarily a mechanical rather than electrical function. In any mechanical assembly with moving parts the stiffness and weight of moving parts can have a significant impact on the performance and energy efficiency of the assembly. In particular, in equipment with reciprocating components increasing the stiffness and reducing the weight of reciprocating components improves the performance and energy efficiency of the equipment.

Today many mechanical components are made of steel because steel has the stiffness required for the particular application. AlSiC has approximately the same stiffness as steel, but is only one-third the weight of steel. AlSiC is, however, higher cost than steel. However, we believe there are many mechanical applications where the customer will pay the higher cost for AlSiC because of significant improvements in performance resulting from the superior stiffness-to-weight ratio of AlSiC.

Examples of structural applications for which we are developing and supplying components include armor, robotic arms for semiconductor manufacturing equipment and components used in oil and gas industries.

Specific Markets and Products

Motor Controller Applications (Insulated Gate Bipolar Transistor ("IGBT") Applications)

The use of power modules to control electric motors of all sizes is growing. This growth is the result of several factors including emerging high-power applications which demand power controllers such as trains, subways and certain industrial equipment, and cost declines in power modules which increasingly make variable speed drives cost effective. Power semiconductors are a very significant portion of the cost of variable speed drives, and the cost of the module housing and thermal management system are also significant; declines in the costs of all these components is driving increased use of variable speed drives.

We provide baseplates and heat spreaders on which power semiconductors are mounted to produce modules for motor control. The power semiconductors are typically insulated gate bipolar transistors and these applications are often referred to as IGBT applications. Our AlSiC baseplates have sufficient thermal conductivity to allow for removal of heat through the baseplate, and have a thermal expansion rate sufficiently similar to the other components in the assembly to ensure reliability over time as the assembly thermally cycles. We believe this market will continue to grow as the use of power modules penetrates additional motor applications, and as electric motors themselves penetrate new applications such as the hybrid electric vehicle.

Today our primary products for IGBT applications are used in electric trains, subway cars, wind-generating turbines and hybrid and electric vehicles.

Major automobile companies around the world are introducing hybrid electric vehicles (HEVs) and electric vehicle (EVs) at an increasing rate. This focus on more energy efficient vehicles is being driven by increases in energy costs and concerns about climate change. There are many varieties of HEVs and EVs, but all HEVs and EVs contain an electric motor and contain one or more motor controller modules. The Company provides baseplates on which motor controller modules are assembled; these baseplates are lighter weight and provide greater reliability than baseplates made from more conventional materials.

The Company is working with multiple tier one and tier two suppliers to the automobile industry on several new designs for future introduction. The Company believes the HEV and EV markets will be the source of significant and long-term growth for the Company.

Lids and Heat Spreaders for High-Performance Microprocessors, Application-Specific Integrated Circuits and Other Integrated Circuits ("Flip-chip Applications")

Increases in speed, circuit density, and the number of connections in microprocessor chips (CPUs) and application-specific integrated circuits (ASICs) are accelerating a transition in the way in which these circuits are packaged. Packages provide mechanical protection to the integrated circuit (IC), enable the IC to be connected to other circuits via pins, solder bumps or other connectors, and allow attachment of a heat sink or fan to ensure the IC does not overheat. In the past most high-performance ICs were electrically connected to the package by fine wires in a process known as wire bonding. Today, most high-performance semiconductors are connected to the package by placing metal bumps on the connection points of the die, turning the die upside down in the package, and directly connecting the bumps on the die with corresponding bumps on the package base by reflowing the bumps. This is referred to as a "flip-chip package". Flip chip packages allow for connection of a larger number of leads in a smaller space, and can provide other electrical performance advantages compared to wire bonded packages.

In many flip chip configurations a lid or heat spreader is placed over the die to protect the die from mechanical damage and to facilitate the removal of heat from the die. Often a heat sink or fan is then attached to the lid. For a high-density die the package designer must ensure that the lid has sufficient thermal conductivity to remove heat from the die and that all components of the package assembly - the die itself, the package base, and the package lid - are made from materials with sufficiently similar thermal expansion rates to ensure the assembly will not break itself apart over time as it thermally cycles.

Our composite material, AlSiC, has been developed to meet these two needs: it is engineered to have sufficient thermal conductivity to allow the heat generated by the die to be removed through the lid, and it is engineered to expand upon heating at a rate similar to other materials used in the package assembly in order to ensure reliability of the package over time as it thermally cycles. We produce lids made of AlSiC for high performance microprocessors and application-specific integrated circuits used in servers, internet switches and other applications.

Most participants in the semiconductor industry believe the densities of ICs will continue to increase following the well-known "Moore’s Law". As IC densities increase, generally so does the IC size, and the amount of heat generated by the IC. We believe the need for thermal management will continue to grow rapidly.

Customers

We sell primarily to major microelectronics systems houses in the United States, Europe and Asia. Our customers typically purchase prototype and evaluation quantities of our products over a one to three year period before purchasing production volumes.

In 2012, our three largest customers accounted for 38%, 17% and 8% of revenues, respectively. In 2012, 83% of our revenues were derived from commercial applications and 17% from defense-related applications.

Research and Development

In 2012, costs incurred related to funding under the Cooperative Agreement were $605 thousand of which $597 thousand was reimbursed by the U.S. Army and $8 thousand was the Company’s cost share. The revenue recognized by the Company of $597 thousand less the Company’s research and development cost of $502 thousand resulted in a gross margin of $95 thousand.

Availability of Raw Materials

We use a variety of raw materials from numerous domestic and foreign suppliers. These materials are primarily aluminum ingots, ceramic powders and chemicals. The raw materials we use are available from domestic and foreign sources and none is believed to be scarce or restricted for national security reasons. We use no conflict metals.

Patents and Trade Secrets

As of December 29, 2012, we had 11 United States patents and seven United States patent pending. We also have several international patents covering the same subject matter as the U.S. patents. Our licensees have rights to use certain patents as defined in their respective license agreements.

We intend to continue to apply for domestic and foreign patent protection in appropriate cases. In other cases, we believe we are better served by reliance on trade secret protection. In all cases, we seek protection for our technological developments to preserve our competitive position.

Backlog and Contracts

Over 90% of the Company's product sales are custom in that they are based on customers drawings and the large majority of these sales are "designed in" and are sold over multiple years. Major customers typically give the Company a non-binding forecast of demand for a one-year period and then negotiate a pricing agreement with the Company valid for a year. Each week customers then issue releases or authorizations to ship under the pricing agreements. At any point in time the contractually binding backlog represented by the releases in hand does not necessarily reflect underlying demand. Given this situation, the Company does not believe backlog data is helpful to investors.

Competition

We have developed and expect to continue to develop products for a number of different end markets and we will encounter competition from different producers of metal-matrix composites and other competing materials.

We believe that the principal competitive factors in our end markets today include technical competence, product performance, quality, reliability, price, corporate reputation, and strength of sales and marketing resources. We believe our proprietary processes, reputation, and the price at which we can offer products for sale will enable us to compete successfully in the many electronics end markets. However, many of the American and foreign companies now producing or developing metal-matrix composites have far greater financial and sales and marketing resources than we do which may enable them to develop and market products which would compete against those developed by us.

Government Regulation

We produce non-nuclear, non-medical hazardous waste in our development and manufacturing operations. The disposal of such waste is governed by state and federal regulations. Various customers, vendors, and collaborative development agreement partners of CPS may reside abroad, thereby possibly requiring export and import of raw materials, intermediate products, and finished products, as well as potential technology transfer abroad under collaborative development agreements. These types of activities are regulated by bureaus within the Departments of Commerce, State and Treasury.

In 2008, the Company entered into a cooperative agreement with the US Army Research Laboratory to perform research and development concerning hybrid metal matrix composite encapsulated ceramic armor technology. The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

Revenues from this Cooperative Agreement are recognized proportionally as costs are incurred. We are reimbursed for reasonable and allocable costs up to the reimbursement limits set by the Cooperative Agreement. All payments to the Company for work performed on this Cooperative Agreement are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments, if any, are recognized in the period made.

Employees

As of December 29, 2012, we had 134 full-time employees and 5 part-time employees, of whom 120 were engaged in manufacturing and engineering and 14 in sales and administration, including finance, purchasing, IT, and customer service. There are no temporary employees working at this time to support production and program requirements.

None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be excellent.

Item 1A. Risk Factors.

We are heavily dependent on the electronics industry and changes in the industry could harm our business and operating results.

The electronics industry is subject to economic cycles, demand in some segments is currently volatile, and is likely in the future to experience recessionary periods. A protracted general recession in the electronics industry could have a material adverse effect on our business, financial condition and results of operations.

Our operating results may fluctuate substantially, which may cause our stock price to fall.

Our quarterly and annual results of operations have varied in the past, and our operating results may vary significantly in the future due to a number of factors including, but not limited to: timing of orders from major customers; mix of products and services; pricing and other competitive pressures; delays in prototype shipments, economic conditions in the electronics industry, raw material costs, and our ability to time expenditures in anticipation of future revenues.

Some executive officers and key personnel are critical to our business and these key personnel may not remain with the Company in the future.

Our success depends upon the continued service of some executive officers and other key personnel. Our employees are not bound by employment agreements, and there can be no assurance that the Company will retain its officers and key employees.

We may need additional capital in the future, which may not be available.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. The sale of equity or convertible debt securities in the future may be dilutive to our shareholders. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing agreements on unattractive terms.

The trading price of our common stock may be volatile.

The trading prices of our common stock has been and could in the future be subject to significant fluctuations in response to variations in quarterly operating results, developments in the electronics industry, changes in general economic conditions and economic conditions in the electronics industry, and other factors. In addition, the stock market in recent years has experienced significant price and volume fluctuations which have affected the market prices of technology companies and which have been unrelated to or disproportionately impacted by the operating performance of those companies. These broad market fluctuations may cause the market price of our common stock to decline.

The Company relies on a small number of customers for a large percentage of its revenues.

Historically the Company has had a small number of customers representing a large percentage of its total sales. Although the Company endeavors to expand its customer base, we expect that sales to a limited number of customers

will continue to account for a high percentage of our revenues in any given period for the foreseeable future. The reliance makes us particularly susceptible to factors affecting those customers. If such customers' business declines and as a result our sales to such customers decline without corresponding sales orders from other customers, our financial condition and results of operations would be adversely affected.

The growth of our business depends upon the development and successful commercial acceptance of our new products.

Our failure to develop, manufacture, and sell new products in quantities sufficient to offset a decline in revenue from existing products or to successfully manage product and related inventory transactions could harm our business. We depend upon timely and efficient completion of design and development, implementation of manufacturing processes, and effective sales, marketing and customer service. Because of the complexity of our products, significant delays may occur in introducing new products, or between a product's initial introduction and volume production.

Technological changes may make our products obsolete or result in decreased prices or increased expenses.

Although our products are "designed-in" and often have lives lasting several years, and technological changes could eliminate our competitive advantages. This could lead to significant price erosion for products. Our success will depend in part on our ability to develop and offer more advanced products in the future, to anticipate both future demand and the technology to supply that demand, to enhance our current products and services, to provide those products and services at competitive prices on a timely and cost-effective basis to achieve market acceptance of those products and services.

Our military business could suffer as a result of the pressures to reduce defense spending.

Over the past four years revenues from our contract with the U.S. Army Research Laboratory has approximated 10% of the Company's total revenue. This contract will expire in 2013 and pressures to reduce national spending on defense could make it difficult to continue to generate revenues from the military sector.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

As of December 29, 2012, all our manufacturing, engineering, sales and administrative operations are located in leased facilities in Norton, Massachusetts and Attleboro, MA. The Company entered into a 10-year lease for the Norton facilities effective on March 1, 2006. The leased facilities comprise approximately 38 thousand square feet.

In February 2011, the Company entered into a lease for an additional 13.8 thousand square feet in Attleboro, MA. The lease term is for one year and has an option to extend the lease for five additional one year periods. The Company renewed the lease in October 2012 for one additional year.

Item 3. Legal Proceedings.

We are not a party to any litigation which could have a material adverse effect on us or on our business and we are not aware of any pending or threatened material litigation against us.

Item 4. Mine Safety Disclosures

Not applicable

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities.

On December 29, 2012, we had approximately 360 shareholders. The high and low closing bid prices of our common stock for each quarter during the years ended December 29, 2012 and December 31, 2011 are shown below.

	2012		2011	
	High	Low	High	Low
1st Quarter	$2.30	$1.10	$2.38	$1.65
2nd Quarter	$2.75	$1.99	$2.38	$1.75
3rd Quarter	$2.40	$1.29	$2.20	$1.65
4th Quarter	$1.80	$1.00	$2.20	$1.01

We have never paid cash dividends on our Common Stock. We currently plan to reinvest our earnings, if any, for use in the business and do not intend to pay cash dividends in the foreseeable future. Future dividend policy will depend, among other factors, upon our earnings and financial condition.

Our Common Stock is traded on NASD's Over-the-Counter Bulletin Board (OTCBB) under the symbol CPSH.OB

Item 6. Selected Financial Data (000's, except per share amounts)

The following selected financial data of CPS should be read in conjunction with the financial statements and related notes filed as part of this Annual Report on Form 10-K. Amounts are in thousands except per share amounts.

SELECTED FINANCIAL DATA

For the Fiscal Year:	2012	2011	2010	2009	2008
Summary of Operations					
Product Revenue	$13,454	$17,643	$19,913	$11,301	$14,456
Cooperative Agreement Revenue	597	2,164	1,484	1,679	357
Operating Expenses	16,851	20,143	20,344	12,831	13,429
Operating Income (Loss)	(2,799)	(336)	1,054	149	1,384
Other Income (Expense), Net	(29)	(33)	(32)	(39)	(44)
Net Income (Loss) Before Taxes	(2,828)	(369)	1,021	110	1,340
Provision Benefit) for Income Taxes	(1,306)	(323)	311	(452)	(134)
Net Income (Loss)	(1,522)	(46)	710	562	1,474
Net Income (Loss) Per Basic Common Share	$(0.12)	$0.00	$0.06	$0.04	$0.12
Weighted Average Basic Number of Common Shares Outstanding	12,870	12,766	12,643	12,625	12,613
Net Income (Loss) Per Diluted Common Share	$(0.12)	$0.00	$0.06	$0.04	$0.11
Weighted Average Diluted Number of Common Shares Outstanding	12,870	12,766	12,882	12,931	13,243

Year-End Position					
Working Capital	$3,395	$5,501	$5,731	$5,020	$4,663
Total Assets	$10,349	$11,334	$10,611	$9,230	$8,367
Long-term Obligations	$76	$200	$176	$263	$152
Stockholders' Equity	$7,532	$8,802	$8,486	$7,553	$6,981

SELECTED QUARTERLY FINANCIAL DATA

	First Fiscal Quarter	Second Fiscal Quarter	Third Fiscal Quarter	Fourth Fiscal Quarter
2012				
Total Revenues	$3,555	$3,628	$2,744	$4,125
Gross Margin	$(34)	$193	$(236)	$333
Net Income (loss)	$(534)	$(373)	$(531)	$(84)
Net Income (loss) Per Basic Share	$(0.04)	$(0.03)	$(0.04)	$(0.01)
Net Income (loss) Per Diluted Common Share	$(0.04)	$(0.03)	$(0.04)	$(0.01)
2011				
Total Revenues	$5,840	$4,842	$4,901	$4,224
Gross Margin	$856	$959	$892	$249
Net Income	$16	$13	$28	$(103)
Net Income (loss) Per Basic Share	$0.00	$0.00	$0.00	$(0.01)
Net Income (loss) Per Diluted Common Share	$0.00	$0.00	$0.00	$(0.01)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This document contains forward-looking statements, based on numerous assumptions, subject to risks and uncertainties. Although we believe that the forward-looking statements are reasonable, we do not and cannot give any assurance that our beliefs and expectations will prove to be correct. Many factors could significantly affect our operations and cause our actual results to be substantially different from our expectations. Those factors include, but are not limited to: (i) general economic and business conditions; (ii) customer acceptance of our products; (iii) materials and manufacturing costs; (iv) the financial condition of customers, competitors and suppliers; (v) technological developments; (vi) increased competition; (vii) changes in capital market conditions; (viii) governmental and business conditions in countries where our products are manufactured and sold; (ix) changes in trade regulations; (x) the effect of acquisition activity; (xi) changes in our plans, strategies, objectives, expectations or intentions; and (xii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report. We do not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

Overview

The Company provides advanced material solutions to the electronics, robotics, automotive, defense and other industries.

CPS' primary advanced material solution is metal matrix composites, 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.

The end markets which account for a majority of our sales today are all electronics markets: primarily the high-performance microprocessor and application-specific integrated circuits market and the motor controller market. The Company's products are typically in the form of housings, packages, lids, substrates, thermal planes, heat

spreaders or baseplates, and are used in applications where thermal management and/or weight are important considerations.

In addition to electronics end markets, we are developing, manufacturing and marketing metal-matrix composite components for some structural end-markets including armor.

The objective of the Cooperative Agreement with the U.S. Army is 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.

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 engineering, tooling design and fabrication, process engineering, etc. 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 metal matrix composites 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. In 2012 its top three customers accounted for 63% of revenue and the remaining 37% of revenue was derived from 69 other customers. In 2011 the top three customers accounted for 71% of revenue and the remaining 29% of revenue was derived from approximately 49 customers.

Application of Critical Accounting Policies

Financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, the Company is required to make certain estimates, judgments and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. CPS's significant accounting policies are presented within Note 2 to the financial statements; the significant accounting policies which management believes are most critical to aid in fully understanding and evaluating its reported financial results include the following:

Revenue Recognition ($ in 000)

Revenue is recognized in accordance with the provisions of the Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104 which establishes guidance in applying generally accepted accounting principles to revenue recognition in financial statements. SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or

services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

Shipping terms are customarily EXW (Ex-works) Shipping Point which terms are consistent with "FOB Shipping Point". Revenues for products sold in the normal course of business are recognized upon shipment when delivery terms are EXW shipping point and all other revenue recognition criteria have been met.

The Company also has consigned inventory agreements with a few customers. For product shipped under consigned inventory agreements, the Company recognizes revenue when the customer either notifies CPS that they have picked the product from the consigned inventory or, in some cases, when sixty days have elapsed from the date the shipment arrives at the customer's location. Of the total inventory of $2.5 million at December 29, 2012, $1.1 million was located at customers' locations pursuant to consigned inventory agreements. Of the total inventory of $3.1 million at December 31, 2011, $1.4 million was located at customers' locations pursuant to consigned inventory agreements.

Advance payments, if any, in excess of revenue recognized are recorded as deferred revenue.

In 2008, CPS entered into a cooperative agreement with the US Army Research Laboratory to perform research and development concerning hybrid metal matrix composite encapsulated ceramic armor technology. The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

Revenues on this Cooperative Agreement are recognized proportionally as costs are incurred. The Company is reimbursed for reasonable and allocable costs up to the reimbursement limits set by the Cooperative Agreement. All payments to the Company for work performed on this Cooperative Agreement are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments, if any, are recognized in the period made.

The Cooperative Agreement extends for four years and provides for funding of up to $8.34 million, over the four years, but actual funding is provided incrementally on a year-to-year basis, depending on, among other factors, if yearly objectives are met and if Congress authorizes the funds ($6.6 million has been authorized through December 29, 2012). If the total $8.34 million in funding is provided by the Government, the Company's cost share will amount to $439 thousand over the term of the Agreement. Amendment/Modification #P00008 extended the term of performance of the original Agreement, Cooperative Agreement W911NF-08-2-0017, from July 14, 2012 to July 14, 2013. As of December 29, 2012, the Company had invoiced $6.3 million since inception of the Agreement and expects to invoice the full amount approved of $6.6 million, before July 14, 2013.

Accounts Receivable

The Company performs ongoing monitoring of the status of its receivables based on the payment history and the credit worthiness of our customers, as determined by a review of their current credit information. Management continuously monitors collections and payments from customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been low and within expectations, there is no guarantee that we will continue to experience the same credit loss rates as in the past. Although the Company's major customers are large and have a favorable payment history, a significant change in the liquidity or financial position of one of them could have a material adverse impact on the collectability of accounts receivable and future operating results. Sales returns are offset against the related amounts invoiced in accounts receivable.

Inventory

The Company has a build-to-order business model and manufactures product to ship against specific purchase orders; occasionally CPS manufactures product in advance of anticipated purchase orders to level load production or prepare for a ramp-up in demand. In addition, 100% of the Company's products are custom, meaning they are produced to a customer's design and generally cannot be used for any other purpose. Purchase orders generally have cancellation

provisions which vary from customer to customer, but which can result occasionally in CPS producing product which the customer is not obligated to purchase. However, once a product has gone into production, most customer orders are recurring and order cancellations are rare. The Company's general obsolescence policy is to write off obsolete inventory when there has been no activity on a particular part for a twelve month period and there are no pending customer orders.

In some cases, customers place blanket purchase orders and request the Company to maintain inventory sufficient to respond quickly upon receiving a shipment request. The Company manufactures to specifications and the products typically have a life which extends over several years and does not deteriorate over time. Therefore, the risk of obsolescence due to the passage of time, per se, is minimal. However, in order to more efficiently schedule production or to meet agreements with customers to have inventory in the pipeline, the Company occasionally manufactures products in advance of purchase orders. In these instances, the Company bears the risk that it will be left with product manufactures to specification for which there are no customer purchase orders. The Company scrutinizes its inventory and, in the absence of pending orders or strong evidence of future sales, establishes an obsolescence reserve when there has been no activity on a particular part for twelve month period.

In determining inventory cost, the Company uses the first-in, first-out method and states inventory at the lower of cost or market. Virtually all of the Company's inventory is customer specific; as a result, if a customer's order is cancelled, it is unlikely that CPS would be able to sell that inventory to another customer. Likewise, if the Company chooses to manufacture product in advance of anticipated purchase orders and those orders did not materialize, it is unlikely that it would be able to sell that inventory to another customer. The value of CPS's work in process and finished goods is based on the assumption that specific customers will take delivery of specific items of inventory. The Company has not experienced losses to date as a result of customer cancellations and has not established a reserve for such cancellations.

Property and Equipment

Property and equipment are stated at cost. Depreciation of equipment is calculated on a straight-line basis over the estimated useful life, generally five years for production equipment and three to five years for furniture and office equipment. Amortization of equipment under capital leases is calculated on a straight-line basis over the life of the lease. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale, the cost and related accumulated depreciation or amortization are removed from their respective accounts. Any gains or losses on the disposition of property and equipment are included in the results of operations in the period in which they occur.

Income Taxes

Deferred tax assets and liabilities are based on the net tax effects of tax credits, operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company considers many factors in assessing whether or not a valuation allowance for its Deferred Tax asset is warranted. On the positive side, the Company considered such factors as its: history of taxable earnings (seven consecutive years from 2003-10), global customer base consisting of large companies with significant resources, current products and their expected life, technological advantages, potential for price increases, trend of improved manufacturing efficiencies and the magnitude of the Deferred Tax Asset compared with the Company's expectation of future earnings over the remaining life of the asset. On the negative side, the Company considered such factors as: the current global recession, the Company's ability to absorb a period of operating losses and negative cash flow and the potential for the technological breakthroughs and substitution of the Company's products by lower cost solutions.

In the second quarter of 2012, the Company decided to reclassify 100% of its Deferred Tax Asset as non-current as sales slowed and it became clear that earning a profit for the year and realizing some deferred tax benefit over the next twelve months would be unlikely. At the end of 2012 a detailed analysis was made considering the future outlook for

operations and projected changes in balance sheet accounts. Based upon this analysis, it was decided to classify $355 thousand of the Deferred Tax Asset as current and the balance as non-current.

At December 29, 2012, the Company's Deferred Tax Asset included net operating loss carryforwards and other temporary differences which will require taxable income of approximately $7.1 million to fully utilize, assuming an effective corporate tax rate of 39%. The Company has concluded that it is more likely than not that its Deferred Tax Asset will be fully realized. Current projections of future taxable income, including the reversal of temporary differences, reflect the Company's belief that it has attractive growth opportunities and a favorable cost structure. These projections support the conclusion that the Company will generate taxable income sufficient to utilize the losses before they expire. An important consideration in this analysis is the fact that none of the NOL carryforwards expire before 2020 and the NOL carryforwards from 2012 will not expire until 2032.

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. As of December 29, 2012 and December 31, 2011, the Company has no accruals for interest or penalties related to income tax matters. The Company does not have any uncertain tax positions at December 29, 2012 or December 31, 2011 which required accrual or disclosure.

Income tax effects related to share-based compensation that are in excess, or less than, of grant-date fair value, less any proceeds received on exercise of stock prices, are recognized as either an increase or decrease to additional paid-in capital upon exercise.

Results of Operations

Year ended December 29, 2012 ("2012") compared to the year ended December 31, 2011 ("2011").

Total revenues were $14.1 million in 2012 compared to total revenues of $19.8 million in 2011, a 29% decrease. This reduction of $5.7 million was made up of three main categories: baseplates used in the traction and high power markets, lids and heatspreaders, and revenue earned from The Cooperative Agreement with the U.S. Army Research Laboratory. The traction and high power markets were adversely affected by the weak economies in Europe and the slow-down of traction spending in China. The reduction in the lid and heatspreaders occurred as many products approached their end of life. The lower revenues earned on the contract with the U.S. Army Laboratory reflected a general tightening of the defense spending as well as the fact that The Cooperative Agreement is nearing the end of its contract.

Gross Margin in 2012 totaled $256 thousand, representing 2% margin on sales. This compares with $3.0 million gross margin generated in 2011 (15% of sales). The most significant factor causing the decline was the drop in sales volume which resulted in manufacturing fixed costs being spread over significantly fewer dollars. Other factors contributing to this reduction in margin percentage included $292 thousand obsolescence charges for lids that reached the end of life earlier than forecast by customers, additional costs associated with an outside finishing operation recorded in the First Quarter, and the lower prices for certain baseplate products.

Selling, General and Administrative (SG&A) expenses totaled $3.1 million in 2012 compared to $3.3 million in 2011. The decrease was due primarily to the suspension of the Company's 401k matching program in the First Quarter of 2012 and lower expenses for sales commissions, the latter of which was directly related to the lower sales volume.

The Operating Loss for 2012 totaled $2.8 million versus an Operating Loss in 2011 of $336 thousand. The increase was primarily due to lower sales volume. Other factors contributing to this increase include obsolescence charges and costs associated with the finishing operation cited earlier, offset in small part by a reduction in SG&A spending.

Other Expense (net) was down slightly versus 2011. The Loss before Taxes in 2012 totaled $2.8 million versus a Loss before Taxes in 2011 of $400 thousand. This increase was due to the same factors cited above for the change in

Operating Income. The tax benefit in 2012 was $1.3 million compared to $323 thousand in 2011.

Significant Fourth Quarter Activity

Revenues totaled $4.1 million in the Fourth Quarter of 2012 versus $4.2 million in the comparable quarter in 2011. The totals are similar as the Company was able to generate an increase in the sales of baseplates and hermetic packages during the Fourth Quarter of 2012 to approximately offset the decline experienced in its sale of lids, revenues generated from the contract with the U.S. Army Research Laboratory and revenues from automotive products.

Gross Margin increased in the Fourth Quarter of 2012 versus the Fourth Quarter 2011 to $333 thousand (8% of sales) from $248 thousand (6% of sales). This improvement was primarily due to operational improvements in manufacturing operations.

Selling, General and Administrative expenses totaled $760 thousand in the Fourth Quarter of 2012 compared with $712 thousand in the Fourth Quarter of 2011. A major reason for this difference was an increase in legal expenses associated with an overseas patent issue.

The Operating Loss of $427 thousand in the Fourth Quarter of 2012 and the Net Loss of $84 thousand in the same quarter represent a modest change when compared with the Fourth Quarter of 2011 when Operating Loss and Net Loss totaled $464 thousand and $103 thousand, respectively.

The Company’s Fourth Quarter of 2012 Operating Loss of $427 thousand was the smallest of any quarter during the year. This was due to higher revenues compared with previous quarters.

Year ended December 31, 2011 (“2011”) compared to the year ended December 25, 2010 (“2010”).

Total revenues were $19.8 million in 2011, compared to total revenues $21.4 million in 2010, a 7% decrease. The decrease was primarily due to a decline in demand for lids and heatspreaders used in network and internet routers and switches and lower prices on certain products, offset in part by increased demand for baseplates for traction and hybrid automobile applications.

Gross Margin in 2011 totaled $3.0 million. This represented a 16% gross margin on product sales, compared to $4.0 million gross margin generated in 2010 (19% on product sales). These decreases were due to lower prices on certain products and reduced unit volumes, offset in part by improvements in manufacturing. The margin on the research and development cooperative agreement varies somewhat depending upon the nature of the costs incurred which specify different overhead rates.

Selling, General and Administrative (SG&A) expenses totaled $3.3 million in 2011, compared to $3.0 million in 2010. The increase is due primarily to compensation and benefits costs, including the addition of a 401K match program, partially offset by the reductions in sales commissions.

The Operating Loss for 2011 totaled $336 thousand versus an Operating Income of $1.0 million in the comparable period for 2010. The decrease was due primarily to a combination of price reductions on certain products and higher personnel costs in the SG&A area, offset in part be improvements in the manufacturing operations. Other Income and Expense (net) was largely unchanged year to year. The Loss before Taxes in 2011 totaled $369 thousand versus a Profit before Tax of $1.0 million. This decrease was due to the same factors cited above for the change at the operating income level. The tax benefit in 2011 was $323 thousand compared to a tax provision of $311 thousand 2010.

Significant Fourth Quarter of 2011 Activity

Revenues totaled $4.2 million in the Fourth Quarter of 2011 versus $4.8 million in the comparable quarter in 2010. Nearly $500 thousand of this decline occurred in the sale of hermetic packages.

Gross Margin increased in the Fourth Quarter of 2011 versus the Fourth Quarter of 2010 to $248 thousand (6% of sales) from $97 thousand (2% of sales). In both years scrap was unusually high in the quarter versus the first nine month period. The manufacturing of metal matrix composites is a challenging process, frought with many variables. During the fourth quarters of both 2010 and 2011, the Company encountered an unusual level of difficulties in its manufacturing operations resulting in higher scrap levels than in the nine months totals of each year. On a quarter to quarter comparison, the higher margin in the Fourth Quarter of 2011 was due to more efficient manufacturing operations.

Selling, General and Administrative expenses totaled $712 thousand in the Fourth Quarter of 2011, flat versus the Fourth Quarter of 2010.

The Operating Loss of $464 thousand in the Fourth Quarter 2011 and the Net Loss of $103 thousand in the same quarter represented a modest improvement when compared with the Fourth Quarter of 2010 when the Operating Loss and Net Loss totaled $636 thousand and $325 thousand, respectively.

Liquidity and Capital Resources

The Company’s cash and cash equivalents at December 29, 2012 totaled $307 thousand. At the same time the Company had bank borrowing of $500 thousand so its net cash was a negative $193 thousand. This compares to cash and cash equivalents at December 31, 2011 of $1.1 million and no outstanding bank borrowing. The decline in net cash of $1.3 million was due to pre-tax losses of $2.8 million, offset in part by a reduction in working capital of $1.0 million (Receivable, Inventories and Payables/Accruals, the fact that capital expenditures and capital lease payments were $305 thousand less than Depreciation/Amortization and non-cash stock compensation of $243 thousand.

Accounts receivable at December 29, 2012 totaled $2.9 million compared with $3.1 million at December 29, 2011. DSOs (Days Sales Outstanding) decreased to 63 from 66 in these respective periods. The accounts receivable balances at the end of December 29, 2012, and December 29, 2011 were both net of an allowance for doubtful accounts of $10 thousand.

Inventories decreased to $2.5 million at December 29, 2012 from $3.1 million at December 31, 2011. During 2011 the Company increased inventories to meet forecasts provided by a key customer which fell short of expectations. During 2012, primarily in the Fourth Quarter, the Company was able to draw down on this inventory as sales from this customer increased. The Company did not experience any obsolescence as a result of this situation. The inventory turnover in 2011, using a 5 point average for inventories, was 8.0. In 2012, the inventory turnover was 4.4. This decline was due to a combination of the inaccuracy in the customers forecast as well as an increase in the percentage of sales made on a consignment basis which extended the inventory pipeline.

All consigned inventory is shipped under existing purchase orders and per customers’ requests. Of the total inventory of $2.5 million at December 29, 2012, $1.1 million was located at customers’ locations pursuant to consigned inventory agreements. Of the total inventory of $3.1 million at December 31, 2011, $1.4 million was located at customers’ locations pursuant to consigned inventory agreements.

The Company financed its working capital during 2012 and 2011 with existing cash balances and borrowings on its bank line of credit. The Company expects it will continue to be able to fund its working capital requirements during 2013 from a combination of existing cash and its bank line of credit.

In May 2012, the Company renewed its revolving line of credit with Sovereign Bank, increasing the maximum from $1.0 to $2.0 million. Under the terms of the agreement, the Company can borrow up to the lesser of the $2.0 million or

its ‘borrowing base’, which allows a portion of its receivables to be borrowed against with the proportions varying by customer. The line of credit is secured by the accounts receivable and other assets of the Company. The revolving line of credit has a one-year term although management believes it is likely that Sovereign Bank and the Company will renew the line at the end of the term. At December 29, 2012, there was $500 thousand of borrowings under this line and its borrowing base at the time would have permitted an additional $900 thousand to have been borrowed.

An equipment financing facility with Sovereign Bank, agreed to in May 2012, allowed the Company to finance up to $1.25 million of eligible equipment. The agreement was modified in November 2012, reducing the maximum allowed to $500 thousand. As of year-end 2012, the Company had $300 thousand available remaining on the Sovereign lease line. Equipment financed by the Sovereign equipment lease qualifies for treatment as a capital lease.

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

Covenant	Requirement	Actual
Current Ratio	minimum of 1.5X	2.2X
Liabilities to Net Worth	maximum of 1.0X	0.4X
Net Loss in Q4, 2012	maximum of $250K	$84K
Capital Expenditures for 2012	maximum of $900K	$210K
Borrowings under the lease line	maximum of $500K	$200K
Borrowings under the line of credit	maximum of $1.363K (based on receivables at 12/29/12)	$500K

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

Contractual Obligations

Our contractual obligations at year-end 2012 consist of the following:

	Payments Due by Period (in $000)				
	Total	Less than one year	1-3 years	4-5 years	More then 5 years
Capital lease obligations, including interest	$ 208	$ 130	$ 78	None	None
Bank borrowings	$ 500	$ 500	None	None	None
Operating lease obligations	$ 566	$ 223	$ 343	None	None

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recent Accounting Pronouncements

A summary of recent accounting standards is included in Note 2 to the financial statements.

Inflation

Inflation had no material effect on the results of operations or financial condition during the last few years. There can be no assurance however, that inflation will not affect our operations or business in the future.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

We are not significantly exposed to the impact of interest rate changes and foreign currency fluctuations. We have not used derivative financial instruments.

Item 8. Financial Statements and Supplementary Data

See Index to the Company's Financial Statements and the accompanying notes which are filed as part of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the direction of our Chief Executive Officer and Chief Financial Officer, management has carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as such item is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 29, 2012.

Changes in Internal Control over Financial Reporting

There were no material changes in the Company's internal control over financial reporting during fiscal 2012.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the direction of our Chief Executive Officer and Chief Financial Officer, management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 29, 2012. In making this assessment, management used the criteria set forth in the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company’s internal control over financial reporting was effective as of December 29, 2012.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to recent final rules of the Securities and Exchange Commission that permit the Company to provide only management&