CPS TECHNOLOGIES CORP/DE/
Form 10-Q
November 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended September 26, 2009
or

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

Commission file number 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	04-2832509
(State or Other Jurisdiction of Incorporation or Organization	(I.R.S. Employer Identification No.)
111 South Worcester Street Norton MA (Address of principal executive offices)	02766-2102 (Zip Code)

(508) 222-0614

Registrants Telephone Number, including Area Code:

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. [X] Yes [ ] No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of October 28, 2009: 12,624,959.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(continued on next page)

	September 26, 2009	December 27, 2008
ASSETS	-------------	-------------
Current assets:		
Cash and cash equivalents	$ 1,236,408	$ 1,158,419
Accounts receivable-trade		
net of allowance for doubtful accounts		
of $12,804 at September 26, 2009 and		
$5,461 at December 27, 2008	2,097,341	2,139,688
Inventories	2,021,179	1,689,700
Prepaid expenses	76,732	65,954
Deferred taxes	843,155	843,155
	-------------	-------------
Total current assets	6,274,815	5,896,916
	-------------	-------------
Property and equipment:		
Production equipment	5,875,692	5,399,581
Furniture and office equipment	267,111	262,976
Leasehold improvements	576,206	460,054
	-------------	-------------
Total cost	6,719,009	6,122,611
Accumulated depreciation		
and amortization	(4,590,189)	(4,054,105)
Construction in progress	42,049	401,587
	-------------	-------------

Net property and equipment	2,170,869	2,470,093
	-------------	-------------
Total Assets	$ 8,445,684	$ 8,367,009
	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(continued)

LIABILITIES AND STOCKHOLDERS` EQUITY	September 26, 2009	December 27, 2008
	-------------	-------------
Current liabilities:		
Accounts payable	$ 348,347	$ 288,934
Accrued expenses	458,117	680,707
Current portion of obligations under capital leases	311,128	264,489
	-------------	-------------
Total current liabilities	1,117,592	1,234,130
Obligations under capital leases less current portion	315,848	152,193
	-------------	-------------
Total liabilities	1,433,440	1,386,323
	-------------	-------------
Stockholders` equity:		
Common stock, $0.01 par value, authorized 15,000,000 shares; issued 12,647,842 shares; outstanding 12,624,959 shares at September 26, 2009 and December 27, 2008	126,479	126,479
Additional paid-in capital	32,911,596	32,904,670
Accumulated deficit	(25,964,996)	(25,989,628)
Less cost of 22,883 common shares repurchased	(60,835)	(60,835)
	-------------	-------------
Total stockholders` equity	7,012,244	6,980,686
	-------------	-------------

Total liabilities and stockholders` equity	$ 8,445,684	$ 8,367,009
	==========	==========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Nine month Periods Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Revenues:				
Product sales	2,439,821	3,580,350	8,114,980	11,468,175
Research and development under cooperative agreement	424,398	--	1,404,315	--
Total Revenues	2,864,219	3,580,350	9,519,295	11,468,175
Cost of product sales	2,145,085	2,786,854	6,594,385	8,241,999
Cost of research and development under cooperative agreement	402,689	--	1,315,927	--
Gross Margin	316,445	793,496	1,608,983	3,226,176
Selling, general, and administrative expense	448,865	612,932	1,545,274	1,909,432
Operating income (loss)	(132,420)	180,564	63,709	1,316,744
Other income (expense), net	(12,312)	(12,296)	(29,277)	(34,974)
Net income (loss) before income tax expense	(144,732)	168,268	34,432	1,281,770
Income tax expense	(8,200)	3,000	9,800	127,000
Net income (loss)	$(136,532)	$165,268	$24,632	$1,154,770
	=========	=========	=========	=========

Net income (loss) per				
basic common share	$ (0.01)	$ 0.01	$ 0.00	$ 0.09
	------------	------------	------------	------------
Weighted average number of				
basic common shares				
outstanding	12,624,959	12,621,003	12,624,959	12,578,490
	=========	=========	=========	=========
Net income per				
diluted common share	$ (0.01)	$ 0.01	$ 0.00	$ 0.09
	------------	------------	------------	------------
Weighted average number of				
diluted common shares				
outstanding	12,624,959	13,265,264	12,889,175	13,252,268
	=========	=========	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Nine-Month Period Ended	
	September 26, 2009	September 27, 2008
	---------	---------
Cash flows from operating activities:		
Net income	$24,632	$1,154,770
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation & amortization	536,440	440,050
Share-based compensation	6,926	17,148
Tax benefit from stock options	--	6,819
Loss on sale of property and equipment	535	--
Changes in operating assets and liabilities:		
Accounts receivable trade	42,347	202,508
Inventories	(331,479)	(368,195)
Prepaid expenses	(10,778)	(56,623)
Accounts payable	59,413	32,387

Accrued expenses	(222,590)	38,503
	-------------	-------------
Net cash provided by operating activities	105,446	1,467,367
	-------------	-------------
Cash flows from investing activities:		
Purchases of property and equipment	(237,851)	(515,078)
Proceeds from sale of property and equipment	100	--
	-------------	-------------
Net cash used in investing activities	(237,751)	(515,078)
	-------------	-------------
Cash flows from financing activities:		
Payment of capital lease obligations	(253,653)	(269,993)
Proceeds from issuance of common stock	--	73,642
Proceeds from capital lease financing	463,947	--
	-------------	-------------
Net cash used by financing activities	(210,294)	(196,351)
	-------------	-------------
Net increase in cash and cash equivalents	77,989	755,938
Cash and cash equivalents at beginning of period	1,158,419	472,059
	-------------	-------------
Cash and cash equivalents at end of period	$ 1,236,408	$ 1,227,997
	=========	=========
Supplemental cash flow information:		
Acquisition of machinery under capital leases	$ 69,163	$ 165,130
Prepaid expense transferred to equipment	$ --	$ 32,217
Cash paid for taxes	$ 183,000	$ 72,640
Interest paid	$ 28,779	$ 35,414

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Notes to Financial Statement
(Unaudited)

(1) Nature of Business

CPS Technologies Corporation (the `Company` or `CPS`) (formerly Ceramics Process Systems Corporation) provides advanced material solutions to the electronics, robotics, 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 Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

(2) Interim Financial Statements

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

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

The Company`s balance sheet at December 27, 2008 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 27, 2008.

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

Management has evaluated subsequent events through November 9, 2009 which is the date the financial statements were issued.

In June 2009, the FASB issued ASU No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles." The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered nonauthoritative. The Codification is effective for interim or annual reporting periods ending after September 15, 2009. This pronouncement had no impact on the Company`s financial statements. However, all future references to authoritative accounting literature will be references in accordance with the Accounting Standards Codification.

In May 2009, the Financial Accounting Standards Board ("FASB") issued ASC 855, "Subsequent Events". ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 is effective for interim or annual periods ending after June 15, 2009 and had no effect on the Company`s financial statements.

In December 2007, the FASB issued ASC 805, "Business Combinations". ASC 805 broadens the guidance and, extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. ASC 805 expands on required disclosures to improve the statement users` abilities to evaluate the nature and financial effects of business combinations. ASC 805 is effective for the first annual reporting period beginning on or after December 15, 2008. The provisions of ASC 805 will be applied to business combinations closing on or after January 1, 2009.

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

Basic net income or net loss per common share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares plus additional common shares that would have been outstanding if potential dilutive common shares had been issued for granted stock option and stock purchase rights.

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

	Quarters Ended		Nine-Month Periods Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
	------------	------------	------------	------------
Basic EPS Computation:				
Numerator:				
Net income (loss)	$ (136,532)	$ 165,268	$ 24,632	$ 1,154,770
Denominator:				
Weighted average Common shares Outstanding	12,624,959	12,621,003	12,624,959	12,578,490
Basic EPS	$ (0.01)	$ 0.01	$ 0.00	$ 0.09
Diluted EPS Computation:				
Numerator:				
Net income (loss)	(136,532)	165,268	24,632	1,154,770
Denominator:				
Weighted average Common shares Outstanding	12,624,959	12,621,003	12,624,959	12,578,490
Dilutive effect of Stock options	--	644,261	264,216	674,138
Total Shares	12,624,959	13,265,264	12,889,175	13,252,268
Diluted EPS	$ (0.01)	$ 0.01	$ 0.00	$ 0.09

(4) Share-Based Payments

The Company maintains a stock incentive plan (the "Plan"), which is described more fully in Note 5 to the financial statements in the 2008 Annual Report filed on Form10-K. 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. There were no shares granted under the Plan during the quarter ended September 26, 2009 and there were 8,000 shares granted under the Plan during the quarter ended September 27, 2008. During the three and nine months ended September 26, 2009, the Company recognized $1,154 and $6,926, respectively, as shared-based compensation expense related to previously granted shared under the Plan. During the three and nine months ended September 27, 2008, the Company recognized ($5,106), a $5,894 expense and a recovery of $11,000, and $17,148 respectively as shared-based compensation expense related to previously granted shares under the Plan.

(5) Inventories

Inventories consist of the following:

	September 26, 2009	December 27, 2008
	-------------	-------------
Raw materials	$ 373,181	$ 246,614
Work in process	557,989	499,964
Finished goods	1,090,009	943,122
	-----------	-----------
Inventories	$ 2,021,179	$ 1,689,700
	=======	=======

(6) Accrued Expenses

Accrued expenses consist of the following:

	September 26, 2009	December 27, 2008
	-------------	-------------
Accrued legal and accounting	$ 57,113	$ 56,572
Accrued payroll	253,311	393,871
Accrued other	143,391	97,789
Accrued income tax payable	4,302	132,475
	------------	------------
	$ 458,117	$ 680,707
	=======	=======

(7) Line of Credit and Equipment Lease Facility Agreements

In April 2005, the Company entered into line of credit and equipment lease agreements with Sovereign Bank. The line of credit is secured by the accounts receivable and other assets of the Company and has an interest rate of prime plus one percent (1%), subject to the Company complying with certain covenants. The line of credit has a limit of $1 million, a one year term and has been extended to May 2010. As of September 26, 2009 there were no borrowings under the line of credit.

The equipment lease facility allows the Company to lease up to $1 million of eligible capital equipment from Sovereign Bank. As of September 26, 2009, the Company has leased capital equipment with a net carrying value of $894 thousand from Sovereign Bank under the lease facility agreement. In May 2009 Sovereign Bank replaced the equipment lease facility with an equipment financing facility with financial terms identical to the equipment financing facility. This equipment financing facility allows the Company to finance up to $1 million of eligible capital equipment through Sovereign Bank, in addition to the equipment already leased under the equipment leasing facility. As of September 26, 2009, the Company had no equipment financed on the equipment financing facility and has $1 million of availability for future use under the equipment financing facility.

(8) Income Taxes

At December 27, 2008, the Company had approximately $4,900,000 of net operating loss carryforwards available to offset income for U.S. Federal income tax purpose. The Company has established a valuation allowance against this and its other deferred tax assets.

The Company recorded a tax provision (benefit) of ($3,400) and $600 for federal income taxes for the three and nine months ended September 26, 2009, respectively. This provision is based on the federal corporate alternative minimum tax rate rather than the statutory graduated tax rates. The Company believes it will be able to use net operating loss carryforwards to offset federal taxes, other than the corporate alternative minimum tax, in fiscal 2009.

The Company reduced the valuation allowance against deferred tax assets at the end of 2008 resulting in a deferred tax asset account of $843,155 on the Company`s balance sheet as of year-end 2008. The Company will continue to consider the need and amount of the valuation allowance against the deferred tax assets based upon its ongoing assessment of historical and projected taxable income.

The Company recorded a tax provision (benefit) of ($4,800) and $9,200 for state income taxes during the three and nine months ended September 26, 2009, respectively.

ITEM 2 MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the financial statements of the Company and notes thereto included in this report and the Company`s Annual Report on Form 10-K for the year ended December 27, 2008.

Forward-Looking Statements

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

Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company`s Annual Report on Form 10-K for the year ended December 27, 2008, 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 27, 2008.

Overview

CPS Technologies Corporation (the `Company` or `CPS`) provides advanced material solutions to the electronics, power generation, automotive and other industries. In 2008 the Company also entered into a cooperative agreement with the U.S. Army to further develop its composite technology to produce armor.

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

Our 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 longer-term. An example of such an end market is motor controllers for hybrid automotives and trucks.

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 ("ARL") 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.

Results of Operations for the Third Fiscal Quarter of 2009 (Q3 2009) Compared to the Third Fiscal Quarter of 2008 (Q3 2008)

Total revenue was $2,864 thousand in Q3 2009, a 20% decrease from total revenue of $3,580 thousand in Q3 2008. The 20% decrease in revenues in Q3 2009 compared to Q3 2008 primarily reflects reduced customer demand due to the continuing challenging external economic environment. Customer demand declined in all product families; this decline was somewhat offset by revenues from the Company`s Cooperative Agreement with the Army Research Laboratory entered into in Q3 2008.

Total operating expenses in Q3 2009 were $2,997 thousand, a 12% decrease from total operating expenses in Q3 2008 of $3,400 thousand. Cost of product sales in Q3 2009 were $2,145 thousand, a 23% decrease from cost of product sales in Q3 2008 of $2,787 thousand. Although management carefully controlled expenses during Q3 2009, the decline in operating expenses was, in percentage terms, less than the decline in revenues due to fixed costs being spread over a smaller base.

The gross profit on product sales in Q3 2009 was 12% compared to gross profit on product sales in Q3 2008 of 22%. The gross margin decline is primarily due to fixed costs being spread over a smaller base in Q3 2009. The ARL Cooperative Agreement is a cost-share Agreement; the Army funds 95% of the Agreement costs; CPS funds 5% of the Agreement costs.

Selling, general and administrative (SG&A) expenses were $449 thousand in Q3 2009, a 27% decrease from SG&A expenses of $613 thousand in Q3 2008. The decrease in SG&A expenses is primarily the result of decreased commissions paid to sales representatives due to decreased shipments in territories in which the Company has commissioned representatives.

Results of Operations for the First Nine Months of 2009 Compared to the First Nine Months of 2008

Total revenue was $9,519 thousand in the first nine months of 2009, a 17% decrease from total revenue of $11,468 thousand in the first nine months of 2008. The decrease in revenue in the first nine months of 2009 compared to 2008 reflects primarily the continuing challenging external economic environment.

Total operating expenses in the first nine months of 2009 were $9,456 thousand, a 7% decrease from total operating expenses of $10,151 in the first nine months of 2008. Cost of product sales in the first nine months of 2009 were $6,594 thousand, a 20% decrease from cost of product sales of $8,242 thousand in the first nine months of 2008. Cost of product sales decreased primarily as a result of decreased unit shipments. Although management carefully controlled expenses during the first nine months of 2009, the decline in operating expenses was, in percentage terms, less than the decline in revenues due primarily to fixed costs being spread over a smaller base.

Gross profit on product sales in the first nine months of 2009 was 19% compared to gross profit on product sales of 28% in the first nine months of 2008. This decrease in gross margin is the result of lower labor utilization related to reduced demand and fixed costs being spread over a smaller base.

Selling, general and administrative (SG&A) expenses were $1,545 thousand in the first nine months of 2009, a 19% decrease from SG&A expenses of $1,909 thousand in the first nine months of 2008. The decrease in SG&A expenses is primarily the result of lower commissions paid to sales representatives and lower sales promotion expenses.

Liquidity and Capital Resources

The Company`s cash and cash equivalents at September 26, 2009 were $1,236 thousand, compared to cash and cash equivalents at December 27, 2008 of $1,158 thousand, an increase of $78 thousand or 6%. Cash increased as a result of timing of collections and management carefully controlling expenses. The Company expects that the quarter-end cash balance will fluctuate in future quarters as revenues fluctuate, and as the Company assesses the condition of economy.

Accounts receivable declined to $2,097 thousand at September 26, 2009 from $2,139 thousand at December 27, 2008. This change reflects the size and timing of shipments and collections in Q3 2009 compared to Q4 2008; there has been no significant change in days sales outstanding. The accounts receivable balance at September 26, 2009 and December 27, 2008 is net of allowance for doubtful accounts of $13 thousand and $5 thousand, respectively.

Inventories increased to $2,021 thousand at September 26, 2009 from $1,690 thousand at December 27, 2008. Raw materials inventory increased primarily due to purchased components used in the Company`s hermetic packaging product line; work-in-process inventory increased due to product mix changes; finished goods inventory increased due to the timing of shipments.

All consigned inventory is shipped under existing purchase orders and per customers` requests. Of the total finished goods inventory of $1,090 thousand at September 26, 2009, $379 thousand was located at customers` locations pursuant to consigned inventory agreements. Of the total finished goods inventory of $943 thousand at December 27, 2008, $630 thousand was located at customers` locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q3 2009 and the nine months ended September 26, 2009 with existing cash balances and funds generated by operations. The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2009 from these same sources.

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

Contractual Obligations

In April 2005, the Company entered line of credit and equipment lease agreements with Sovereign Bank. The line of credit is a revolving credit facility allowing the Company to borrow up to 80% of eligible accounts receivable, up to a maximum of $1 million, subject to the Company complying with certain covenants. The line of credit has a one-year term. As of September 26, 2009 there were no borrowings under the line of credit. In May 2009 the term was extended for one year to May 2010.

The equipment lease facility allows the Company to lease up to $1 million of eligible capital equipment. As of September 26, 2009, the Company has leased capital equipment with a carrying value of $894 thousand from Sovereign Bank under the lease facility agreement. In May 2009 Sovereign Bank replaced the equipment lease facility with an equipment financing facility with financial terms identical to the equipment financing facility. This equipment financing facility allows the Company to finance up to $1 million of eligible capital equipment through Sovereign Bank, in addition to the equipment already leased under the equipment leasing facility. As of September 26, 2009, the Company had no equipment financed on the equipment financing facility and has $1 million of availability for future use under the equipment financing facility.

As of September 26, 2009 production equipment included $42 thousand of construction in progress and the Company had $153 thousand in outstanding commitments to purchase production equipment supporting activities associated with the ARL Cooperative Agreement. The Company intends to finance production equipment in construction in progress with existing cash balances and funds generated by operations.

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

The Company`s contractual obligations at September 26, 2009 consist of the following:

		Payments Due by Period			
		Remaining in	FY 2010 -	FY 2013 -	FY 2016 and
	Total	FY 2009	FY 2012	FY 2015	beyond
Capital lease obligations including interest	$ 672,093	$ 104,425	$ 567,668	$ --	$ --
Purchase commitments for production equipment	$ 153,365	$ 153,365	$ --	$ --	$ --
Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA.	$ 892,500	$ 30,000	$ 385,000	$ 290,000	$ 187,500

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None.

ITEM 1A RISK FACTORS

There have been no material changes to the risk factors as discussed in our 2008 Form 10-K

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

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibits:

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

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

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

b. Reports on Form 8-K

On November 10, 2009 the Company filed a report on Form 8-K relating to the announcement of its financial results for the quarter ended September 26, 2009 as presented in a press release dated November 9, 2009.

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 10, 2009
/s/ Grant C. Bennett
Grant C. Bennett
President