CPS TECHNOLOGIES CORP/DE/
Form 10-Q
November 09, 2010

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 25, 2010
or

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

Commission file number 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

(508) 222-0614

Registrants Telephone Number, including Area Code:

CPS Technologies Corporation

111 South Worcester Street

Norton, MA 02766-2102

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of October 28, 2010: 12,664,959.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

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

	September 25, 2010	December 26, 2009
ASSETS	-------------	-------------
Current assets:		
Cash and cash equivalents	$ 1,672,958	$ 1,073,600
Accounts receivable-trade net of allowance for doubtful accounts of $22,205 at September 25, 2010 and $5,000 at December 26, 2009	4,264,806	2,587,135
Inventories	1,860,882	2,072,210
Prepaid expenses	69,110	66,761
Deferred taxes	634,696	634,696
	-------------	-------------
Total current assets	8,502,452	6,434,402
	-------------	-------------

Property and equipment:		
Production equipment	6,338,070	5,959,449
Furniture and office equipment	275,627	267,111
Leasehold improvements	625,614	592,787
	-------------	-------------
Total cost	7,239,311	6,819,347
Accumulated depreciation		
and amortization	(5,208,114)	(4,778,054)
Construction in progress	190,757	66,541
	-------------	-------------
Net property and equipment	2,221,954	2,107,834
	-------------	-------------
Deferred taxes, non-current	688,000	688,000
	-------------	-------------
Total Assets	$ 11,412,406	$ 9,230,236
	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(continued)

LIABILITIES AND STOCKHOLDERS` EQUITY	September 25, 2010	December 26, 2009
	-------------	-------------
Current liabilities:		
Accounts payable	$ 932,494	$ 500,376
Accrued expenses	1,262,611	644,258
Current portion of obligations		
under capital leases	264,703	269,422
	-------------	-------------
Total current liabilities	2,459,808	1,414,056
Obligations under capital		
leases less current portion	231,618	262,759
	-------------	-------------
Total liabilities	2,691,426	1,676,815
	-------------	-------------
Commitments		

Stockholders` equity:		
Common stock, $0.01 par value, authorized 15,000,000 shares; at September 25, 2010 and December 26, 2009; issued 12,687,842 and 12,647,842 shares at September 25, 2010 and December 26, 2009, respectively; outstanding 12,664,959 and 12,624,959 shares at September 25, 2010 and December 26, 2009, respectively	126,879	126,479
Additional paid-in capital	33,046,919	32,914,990
Accumulated deficit	(24,391,983)	(25,427,213)
Less cost of 22,883 common shares repurchased	(60,835)	(60,835)
	-------------	-------------
Total stockholders` equity	8,720,980	7,553,421
	-------------	-------------
Total liabilities and stockholders` equity	$ 11,412,406	$ 9,230,236
	==========	==========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION

Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Nine month Periods Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
	------------	------------	------------	------------
Revenues:				
Product sales	$5,574,371	$2,439,821	$15,580,602	$8,114,980
Research and development under cooperative agreement	433,352	424,398	1,022,990	1,404,315
	------------	------------	------------	------------
Total Revenues	6,007,723	2,864,219	16,603,592	9,519,295

Cost of product sales	4,151,008	2,145,085	11,767,887	6,594,385
Cost of research and development				
under cooperative agreement	372,441	402,689	917,036	1,315,927
	------------	------------	------------	------------
Gross Margin	1,484,274	316,445	3,918,670	1,608,983
Selling, general, and				
administrative expense	802,184	448,865	2,228,657	1,545,274
	------------	------------	------------	------------
Operating income (loss)	682,090	(132,420)	1,690,012	63,709
Other income expense, net	(7,306)	(12,312)	(23,782)	(29,277)
	------------	------------	------------	------------
Net income (loss) before income				
tax expense (benefit)	674,784	(144,732)	1,666,230	34,432
Income tax expense (benefit)	254,000	(8,200)	631,000	9,800
	------------	------------	------------	------------
Net income (loss)	$420,784	$(136,532)	$1,035,230	$24,632
	=========	=========	=========	=========
Net income (loss) per				
basic common share	$ 0.03	$ (0.01)	$ 0.08	$ 0.00
	------------	------------	------------	------------
Weighted average number of				
basic common shares				
outstanding	12,648,640	12,624,959	12,659,519	12,624,959
	=========	=========	=========	=========
Net income per				
diluted common share	$ 0.03	$ (0.01)	$ 0.08	$ 0.00
	------------	------------	------------	------------
Weighted average number of				
diluted common shares				
outstanding	12,998,593	12,624,959	12,975,415	12,889,175
	=========	=========	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Nine-Month Period Ended	
	September 25, 2010	September 26, 2009
	---------	---------
Cash flows from operating activities:		
Net income	$1,035,230	$24,632
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation & amortization	554,193	536,440
Share-based compensation	97,723	6,926
Loss on sale of property and equipment	--	535
Provision for bad debts on accounts receivable	(17,500)	--
Changes in:		
Accounts receivable trade	(1,660,171)	42,347
Inventories	211,328	(331,479)
Prepaid expenses	(2,349)	(10,778)
Accounts payable	432,118	59,413
Accrued expenses	618,353	(222,590)
	-------------	-------------
Net cash provided by operating activities	1,268,925	105,446
	-------------	-------------
Cash flows from investing activities:		
Purchases of property and equipment	(668,313)	(237,851)
Proceeds from sale of property and equipment	--	100
	-------------	-------------
Net cash used in investing activities	(668,313)	(237,751)
	-------------	-------------
Cash flows from financing activities:		
Payment of capital lease obligations	(221,130)	(253,653)
Tax benefit from stock options exercised	2,546	--
Proceeds from issuance of common stock	32,060	--
Proceeds from capital lease financing	185,270	463,947
	-------------	-------------

Net cash used in financing activities	(1,254)	(210,294)
	-------------	-------------
Net increase in cash and cash equivalents	599,358	77,989
Cash and cash equivalents at beginning of period	1,073,600	1,158,419
	-------------	-------------
Cash and cash equivalents at end of period	$ 1,672,958	$ 1,236,408
	=========	=========
Supplemental cash flow information:		
Acquisition of machinery under capital leases	$ --	$ 69,163
Cash paid for taxes	$ --	$ 183,000
Interest paid	$ 23,452	$ 28,779

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Notes to Financial Statement
(Unaudited)

(1) Nature of Business

The Company provides advanced material solutions to the electronics, robotics, automotive and other industries. The Company`s primary advanced material solution is metal matrix composites which are a combination of metal and ceramic.

CPS also assembles housings and packages for hybrid circuits. These housings and packages may include components made of metal-matrix composites or they may include components made of more traditional materials such as aluminum, copper-tungsten, etc.

The Company sells into several end markets including the wireless communications infrastructure market, high-performance microprocessor market, motor controller market, and other microelectronic and structural markets. In 2008 the Company also entered into a cooperative agreement with the U.S. Army to further develop its composite technology to produce armor.

(2) Interim Financial Statements

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

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

The Company`s balance sheet at December 26, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included CPS`s Annual Report on Form 10-K for the year ended December 26, 2009.

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

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

Basic net income or net loss per common share is calculated by dividing net income 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 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
	------------	------------	------------	------------
Basic EPS Computation:				
Numerator:				
Net income (loss)	$ 420,784	$ (136,532)	$ 1,035,230	$ 24,632
Denominator:				
Weighted average Common shares Outstanding	12,648,640	12,624,959	12,632,853	12,624,959
Basic EPS	$ 0.03	$ (0.01)	$ 0.08	$ 0.00
Diluted EPS Computation:				
Numerator:				
Net income (loss)	420,784	(136,532)	$ 1,035,230	24,632
Denominator:				
Weighted average Common shares Outstanding	12,648,640	12,624,959	12,659,519	12,624,959
Dilutive effect of stock options	349,953	--	314,896	264,216
Total Shares	12,998,593	12,624,959	12,975,415	12,889,175
Diluted EPS	$ 0.03	$ (0.01)	$ 0.08	$ 0.00

(4) Share-Based Payments

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide services in exchange for the award, the requisite service period (usually the vesting period). The Company provides an estimate of forfeitures at initial grant date. Reductions in compensation expense associated with the forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted periodically based on actual forfeiture experience. The company uses the Black-Scholes option pricing model to determine the fair value of the stock options granted.

On July 7, 2010, a total of 724,105 stock options were granted to employees under the Company`s 2009 Stock Incentive Plan; these options were exercisable over a period of ten years at $1.53, and vested over a period of nine years. On September 20, 2010, the Board of Directors modified the vesting schedule for these options from nine years to five years; all other terms remain the same. On July 7, 2010 a total of 38,000 stock options were granted to outside directors and a consultant under the Company`s 2009 Stock Incentive Plan, these options were exercisable over a period of ten years at $1.53 and vested over a period of one year. During the quarter ended September 25, 2010, 40,000 stock options were exercised and 54,250 stock options expired related to previously granted shares under the 1999 Stock Incentive Plan. There were no shares issued, expired or exercised during the quarter ended September 26, 2009

During the three and nine months ended September 25, 2010, the Company recognized $65,669 and $97,723, respectively, as shared-based compensation expense related to previously granted options under the 2009 Stock Incentive Plan. 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 shares under the 1999 Stock Incentive Plan.

(5) Inventories

Inventories consist of the following:

	September 25, 2010	December 26, 2009
	-------------	-------------
Raw materials	$ 406,467	$ 418,002
Work in process	466,733	671,202
Finished goods	987,682	983,006
	-----------	-----------
Inventories	$ 1,860,882	$ 2,072,210
	=======	=======

(6) Accrued Expenses

Accrued expenses consist of the following:

	September 25,	December 26,

	2010	2009
	-------------	-------------
Accrued legal and accounting	$ 53,917	$ 69,124
Accrued payroll	404,418	441,648
Accrued other	201,229	129,784
Accrued income tax payable	603,047	3,702
	------------	------------
	$ 1,262,611	$ 644,258
	=======	=======

(7) Line of Credit and Equipment Lease Facility Agreements

The Company has a $1 million revolving line of credit and a $1 million equipment finance facility with Sovereign Bank, both agreements have been extended to May 2011. The line of credit is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus one percent (1%) and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Sovereign Bank. The line of credit and the equipment finance facility are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the line of credit that require the Company to maintain a targeted rolling four quarter debt service coverage ratio as well as targeted debt to equity and current ratios. At September 25, 2010, the Company was in compliance with these covenants. The Company believes but can give no assurance that it could obtain similar lease facilities from other lenders. At September 25, 2010 there were no borrowings under this line of credit. At September 25, 2010, the Company had $496,321 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and $503,679 available remaining on the Sovereign lease line.

(8) Income Taxes

At December 26, 2009, the Company had approximately $2,894,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company recorded a tax provision of $190,000 and $474,000 for federal income taxes for the three and nine months ended September 25, 2010, 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 2010.

The Company reduced the valuation allowance against deferred tax assets at the end of 2009 resulting in a deferred tax asset account of $1,322,696 on the Company`s balance sheet as of year-end 2009. A valuation allowance is required to be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company believes that it will generate sufficient future taxable income to realize the tax benefits related to the remaining deferred tax assets.

The Company recorded a tax provision of $64,000 and $157,000 for state income taxes during the three and nine months ended September 25, 2010, 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 26, 2009.

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 26, 2009, 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 26, 2009.

Overview

CPS Technologies Corporation (the `Company` or `CPS`) (formerly Ceramics Process Systems Corporation) 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 2010 (Q3 2010) Compared to the Third Fiscal Quarter of 2009 (Q3 2009)

Total revenue was $6,008 thousand in Q3 2010, a 110% increase from total revenue of $2,864 thousand in Q3 2009. The 110% increase in revenues in Q3 2010 compared to Q3 2009 primarily reflects increased customer demand. Customer demand increased in all product families, although revenue under the Company`s Cooperative Agreement with the U.S. Army remained flat. This Agreement is a cost-share Agreement; the Army funds 95% of the Agreement costs; CPS funds 5% of the Agreement costs.

Total operating expenses in Q3 2010 were $5,326 thousand, a 77% increase from total operating expenses in Q3 2009 of $2,997 thousand. Cost of product sales in Q3 2010 was $4,151 thousand, a 94% increase from cost of product sales in Q3 2009 of $2,145 thousand. Cost of product sales rose less than revenues due primarily to fixed costs being spread over a larger base in Q3 2010.

The gross profit on product sales in Q3 2010 was 26% compared to gross profit on product sales in Q3 2009 of 12%. The gross margin increase is primarily due to fixed costs being spread over a larger base in Q3 2010 as well as manufacturing efficiency improvement programs which were ongoing throughout the quarter.

Selling, general and administrative (SG&A) expenses were $802 thousand in Q3 2010, a 79% increase from SG&A expenses of $449 thousand in Q3 2009. The increase in SG&A expenses is primarily the result of increased commissions paid to sales representatives due to increased shipments in territories in which the Company has commissioned representatives.

Results of Operations for the First Nine Months of 2010 Compared to the First Nine Months of 2009

Total revenue was $16,604 thousand in the first nine months of 2010, a 74% increase from total revenue of $9,519 thousand in the first nine months of 2009. The increase in revenue in the first nine months of 2010 compared to 2009 reflects primarily increased customer demand, as well as market share gains by the Company in baseplates for motor control modules.

Total operating expenses in the first nine months of 2010 were $14,914 thousand, a 58% increase from total operating expenses of $9,456 in the first nine months of 2009. Cost of product sales in the first nine months of 2010 were $11,768 thousand, a 78% increase from cost of product sales of $6,594 thousand in the first nine months of 2009. Cost of product sales increased primarily as a result of increased unit shipments.

Gross profit on product sales in the first nine months of 2010 was 24% compared to gross profit on product sales of 19% in the first nine months of 2009. This increase in gross margin is the result of fixed costs being spread over a larger base as well as manufacturing efficiency improvement programs.

Selling, general and administrative (SG&A) expenses were $2,229 thousand in the first nine months of 2010, a 44% increase from SG&A expenses of $1,545 thousand in the first nine months of 2009. The increase in SG&A expenses is primarily the result of higher commissions paid to sales representatives and increased shared-based compensation expense.

Liquidity and Capital Resources

The Company`s cash and cash equivalents at September 25, 2010 were $1,673 thousand, compared to cash and cash equivalents at December 26, 2009 of $1,074 thousand, an increase of $599 thousand or 56%. Cash increased as a result of increased shipments, timing of collections and management carefully controlling expenses.

Accounts receivable increased to $4,265 thousand at September 25, 2010 from $2,587 thousand at December 26, 2009. This change reflects the size and timing of shipments and collections in Q3 2010 compared to Q4 2009; there has been no significant change in days sales outstanding. The accounts receivable balance at September 25, 2010 and December 26, 2009 is net of allowance for doubtful accounts of $22 thousand and $5 thousand, respectively.

Inventories decreased to $1,861 thousand at September 25, 2010 from $2,072 thousand at December 26, 2009. Work-in-process inventory decreased primarily due to product mix changes, as well as manufacturing efficiency improvement programs.

All consigned inventory is shipped under existing purchase orders and per customers` requests. Of the total finished goods inventory of $987 thousand at September 25, 2010, $468 thousand was located at customers` locations pursuant to consigned inventory agreements. Of the total finished goods inventory of $983 thousand at December 26, 2009, $627 thousand was located at customers` locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q3 2010 and the nine months ended September 25, 2010 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 2010 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

The Company has a $1 million revolving line of credit and a $1 million equipment finance facility with Sovereign Bank, both agreements have been extended to May 2011. The line of credit is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus one percent (1%) and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Sovereign Bank. The line of credit and the equipment finance facility are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the line of credit that require the Company to maintain a targeted rolling four quarter debt service coverage ratio as well as targeted debt to equity and current ratios. At September 25, 2010, the Company was in compliance with these covenants. The Company believes but can give no assurance that it could

obtain similar lease facilities from other lenders. At September 25, 2010 there were no borrowings under this line of credit. At September 25, 2010, the Company had $496,321 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and $503,679 available remaining on the Sovereign lease line.

As of September 25, 2010 production equipment included $191 thousand of construction in progress and the Company had $88 thousand in outstanding commitments to purchase production equipment. The Company intends to finance production equipment 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 25, 2010 consist of the following:

		Payments Due by Period		
		Remaining in	FY 2011 -	FY 2014 -
	Total	FY 2010	FY 2013	FY 2016
Capital lease obligations including interest	$ 525,120	$ 74,210	$ 450,910	$ --
Purchase commitments for production equipment	$ 88,465	$ 88,465	$ --	$ --
Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA.	$ 772,300	$ 30,000	$ 406,500	$ 335,800

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 (REMOVED AND RESERVED)

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 August 11, 2010 the Company filed a report on Form 8-K relating to the announcement of its financial results for the quarter ended June 26, 2010 as presented in a press release dated August 9, 2010.

On November 9, 2010, the Company filed a report on Form 8-K relating to the announcement of its financial results for the quarter ended September 25, 2010 as presented in a press release dated November 8, 2010

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 9, 2010
/s/ Grant C. Bennett
Grant C. Bennett
President and Treasurer

(Principal Executive Officer and Principal Financial Officer)