

CPS TECHNOLOGIES CORP/DE/
Form 10-Q
August 10, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended June 26, 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

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically 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 ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):
☐ Yes ☒ 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 July 30, 2010: 12,624,959.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION

Balance Sheets (Unaudited)

(continued on next page)

	June 26, 2010	December 26, 2009
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 2,043,450	\$ 1,073,600
Accounts receivable-trade		
net of allowance for doubtful accounts		
of \$5,000 at June 26, 2010 and		
December 26, 2009	2,694,969	2,587,135
Inventories	1,948,968	2,072,210
Prepaid expenses	52,467	66,761

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

Deferred taxes	634,696	634,696
	-----	-----
Total current assets	7,374,550	6,434,402
	-----	-----
Property and equipment:		
Production equipment	6,044,410	5,959,449
Furniture and office equipment	268,135	267,111
Leasehold improvements	595,577	592,787
	-----	-----
Total cost	6,908,122	6,819,347
Accumulated depreciation		
and amortization	(5,012,111)	(4,778,054)
Construction in progress	195,394	66,541
	-----	-----
Net property and equipment	2,091,405	2,107,834
	-----	-----
Deferred taxes, non-current portion	688,000	688,000
	-----	-----
Total assets	\$ 10,153,955	\$ 9,230,236
	=====	=====

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(continued)

LIABILITIES AND STOCKHOLDERS` EQUITY	June 26, 2010	December 26, 2009
	-----	-----
Current liabilities:		
Accounts payable	\$ 537,618	\$ 500,376
Accrued expenses	1,042,564	644,258
Current portion of obligations		
under capital leases	219,770	269,422
	-----	-----
Total current liabilities	1,799,952	1,414,056
Obligations under capital		

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

leases less current portion	154,082	262,759
	-----	-----
Total liabilities	1,954,034	1,676,815
	-----	-----
Commitments		
Stockholders` equity:		
Common stock, \$0.01 par value,		
authorized 15,000,000 shares;		
issued 12,647,842 shares and		
outstanding 12,624,959		
shares at June 26, 2010 and December	126,479	126,479
26, 2009		
Additional paid-in capital	32,947,044	32,914,990
Accumulated deficit	(24,812,767)	(25,427,213)
Less cost of 22,883 common shares		
repurchased	(60,835)	(60,835)
	-----	-----
Total stockholders` equity	8,199,921	7,553,421
	-----	-----
Total liabilities and stockholders`		
equity	\$ 10,153,955	\$ 9,230,236
	=====	=====

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Six month Periods Ended	
	June 26,	June 27,	June 26,	June 27,
	2010	2009	2010	2009
	-----	-----	-----	-----
Revenues:				
Product sales	\$ 4,970,762	\$ 3,154,349	\$ 10,006,231	\$ 5,675,159
Research and development				
under cooperative	215,921	448,086	589,638	979,917
agreement				
	-----	-----	-----	-----
Total revenues	5,186,683	3,602,435	10,595,869	6,655,076

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

Cost of product sales	3,608,979	2,479,724	7,616,879	4,449,300
Cost of research and development				
under cooperative agreement	193,296	449,731	544,595	913,238
	-----	-----	-----	-----
Gross Margin	1,384,408	672,980	2,434,395	1,292,538
Selling, general, and administrative expense	663,419	588,664	1,426,473	1,096,409
	-----	-----	-----	-----
Operating income	720,989	84,316	1,007,922	196,129
Other income (expense), net	(7,816)	(9,142)	(16,476)	(16,965)
	-----	-----	-----	-----
Net income before income tax expense	713,173	75,174	991,446	179,164
Income tax expense	263,370	9,100	377,000	18,000
	-----	-----	-----	-----
Net income	\$449,803	\$66,074	\$614,446	\$161,164
	=====	=====	=====	=====
Net income per basic common share	\$ 0.04	\$ 0.01	\$ 0.05	\$ 0.01
	-----	-----	-----	-----
Weighted average number of basic common shares outstanding	12,624,959	12,624,959	12,624,959	12,624,959
	=====	=====	=====	=====
Net income per diluted common share	\$ 0.03	\$ 0.01	\$ 0.05	\$ 0.01
	-----	-----	-----	-----
Weighted average number of diluted common shares outstanding	12,938,087	13,028,847	12,928,034	13,021,283
	=====	=====	=====	=====

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

	Six-Month Period Ended	
	June 26, 2010 -----	June 27, 2009 -----
Cash flows from operating activities:		
Net income	\$ 614,446	\$ 161,164
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation & amortization	358,189	357,627
Share-based compensation	32,054	5,772
Changes in:		
Accounts receivable trade	(107,834)	(456,343)
Inventories	123,242	(303,089)
Prepaid expenses	14,294	(16,355)
Accounts payable	37,242	72,640
Accrued expenses	398,306	(115,049)
	-----	-----
Net cash provided by (used in) operating activities	1,469,939	(293,633)
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(341,760)	(167,712)
	-----	-----
Net cash used in investing activities	(341,760)	(167,712)
	-----	-----
Cash flows from financing activities:		
Payment of capital lease obligations	(158,329)	(147,783)
Proceeds from capital lease financing	--	394,785
	-----	-----
Net cash provided by (used in) financing activities	(158,329)	247,002
	-----	-----
Net increase (decrease) in cash and cash equivalents	969,850	(214,343)
Cash and cash equivalents at beginning of period	1,073,600	1,158,419
	-----	-----

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

Cash and cash equivalents at end of period	\$ 2,043,450	\$ 944,076
	=====	=====
Supplemental cash flow information:		
Acquisition of machinery under capital leases	\$ --	\$ 69,163
Cash paid for taxes	\$ --	\$ 183,000
Interest paid	\$ 16,477	\$ 17,001

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		Six-Month Periods Ended	
	June 26, 2010	June 27, 2009	June 26, 2010	June 27, 2009
	-----	-----	-----	-----
Basic EPS Computation:				
Numerator:				
Net income	\$ 449,803	\$ 66,074	\$ 614,446	\$ 161,164
Denominator:				
Weighted average Common shares Outstanding	12,624,959	12,624,959	12,624,959	12,624,959
Basic EPS	\$ 0.04	\$ 0.01	\$ 0.05	\$ 0.01
Diluted EPS Computation:				
Numerator:				
Net income	\$ 449,803	\$ 66,074	\$ 614,446	\$ 161,164
Denominator:				
Weighted average Common shares Outstanding	12,624,959	12,624,959	12,624,959	12,624,959
Dilutive effect of stock options	313,128	403,888	303,075	396,324
Total Shares	12,938,087	13,028,847	12,928,034	13,021,283
Diluted EPS	\$ 0.03	\$ 0.01	\$ 0.05	\$ 0.01

(4) Share-Based Payments

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

of the stock options granted. There were no shares granted under the Plan during the quarters ended June 26, 2010 and June 27, 2009.

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 are exercisable over a period of ten years at \$1.53, and vest over a period of nine years. During the three and six months ended June 26, 2010, the Company recognized \$19,218 and \$32,054, respectively, as shared-based compensation expense related to previously granted shares under the Plan. During the three and six months ended June 27, 2009, the Company recognized \$2,886 and \$5,772, respectively, as shared-based compensation expense related to previously granted shares under the Plan.

(5) Inventories

Inventories consist of the following:

	June 26, 2010	December 26, 2009
	-----	-----
Raw materials	\$ 397,925	\$ 418,002
Work in process	548,996	671,202
Finished goods	1,002,047	983,006
	-----	-----
Inventories	\$ 1,948,968	\$ 2,072,210
	=====	=====

(6) Accrued Expenses

Accrued expenses consist of the following:

	June 26, 2010	December 26, 2009
	-----	-----
Accrued legal and accounting	\$ 45,055	\$ 69,124
Accrued payroll	513,995	441,648
Accrued other	131,921	129,784
Accrued income tax payable	351,593	3,702
	-----	-----
	\$ 1,042,564	\$ 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 June 26, 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 June 26, 2010 there were no borrowings under this line of credit. At June 26, 2010, the Company had \$373,851 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and \$626,149 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 \$199,000 and \$284,000 for federal income taxes for the three and six months ended June 26, 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 \$64,370 and \$93,000 for state income taxes during the three and six months ended June 26, 2010, respectively.

ITEM 2 MANAGERMENTS 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 automobiles 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 Quickset™ Injection Molding Process ("Quickset Process") and the QuickCast™ 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 Second Fiscal Quarter of 2010 (Q2 2010) Compared to the Second Fiscal Quarter of 2009 (Q2 2009)

Total revenue was \$5,187 thousand in Q2 2010, a 44% increase from revenue of \$3,602 thousand in Q2 2009. The increase in revenues primarily reflects increased customer demand in all product families. Increased demand for baseplates for traction applications, heatspreaders for flip-chip integrated circuit packaging, hermetic metal packages and baseplates for hybrid vehicle applications were somewhat offset by a slight decrease in revenue from the Company's contract with the Army for armor development due to the timing of specific tasks. We are pleased that our diversification across multiple end markets has provided some protection against the volatility in demand in some specific end markets.

Total operating expenses in Q2 2010 were \$4,466 thousand, a 27% increase from total operating expenses in Q2 2009 of \$3,518 thousand.

Cost of product sales in Q2 2010 were \$3,609 thousand, a 46% increase from cost of product sales in Q2 2009 of \$2,480 thousand. Cost of product sales increased due to increased product shipments. The gross profit on product sales in Q2 2010 was 27% compared to gross profit on product sales in Q2 2009 of 24%. This change is primarily due to fixed costs being spread over a larger base in Q2 2010, as well as product mix.

Selling, general and administrative (SG&A) expenses were \$663 thousand in Q2 2010, a 13% increase from SG&A expenses of \$589 thousand in Q2 2009. The increase in SG&A expenses is primarily the result of increased commissions paid to sales representatives which is the result of increased revenues.

Results of Operations for First Six Months 2010 Compared to First Six Months of 2009

Total revenue was \$10,596 thousand in the first six months of 2010, a 59% increase from total revenue of \$6,655 thousand in the first six months of 2009. The increase in revenues in the first six months of 2010 compared to 2009 primarily reflect increases in customer demand in all product families. Increased demand for baseplates for traction applications, heatspreaders for flip-chip integrated circuit packaging, hermetic metal packages and baseplates for hybrid vehicle applications were somewhat offset by a slight decrease in revenue from the Company's contract with the Army for armor development.

Total operating expenses in the first six months of 2009 were \$9,588 thousand, a 48% increase from total operating expenses of \$6,459 thousand in the first six months of 2009. Cost of product sales in the first six months of 2010 were \$7,617 thousand, a 71% increase from cost of product sales of \$4,449 thousand in the first six months of 2009. Cost of product sales increased primarily due to increased product shipments.

Gross profit on product sales in the first six months of 2010 was 24% compared with gross profit on product sales of 22% in the first six months of 2009. This change is primarily due to fixed costs being spread over a larger base in Q2 2010, as well as product mix.

Selling, general and administrative (SG&A) expenses were \$1,426 thousand in the first six months of 2010, a 30% increase from SG&A expenses of \$1,096 thousand in the first six months of 2009. The increase in SG&A expenses is primarily the result of increased commissions paid to sales representatives which is the result of increased revenues.

Liquidity and Capital Resources

The Company's cash and cash equivalents at June 26, 2010 were \$2,043 thousand compared to cash and cash equivalents at December 26, 2009 of \$1,074 thousand, an increase of \$970 thousand or 90%. Cash increased primarily as a result of increased shipments and timing of collections.

Accounts receivable increased to \$2,695 thousand at June 26, 2010 from \$2,587 thousand at December 26, 2009. This change reflects increased shipments in 2010 and timing of collections in Q2 2010 compared to Q4 2009. The accounts receivable balance at June 26, 2010 and December 26, 2009 is net of allowance for doubtful accounts of \$5 thousand.

Inventories decreased to \$1,949 thousand at June 26, 2010 from \$2,072 thousand at December 26, 2009. Raw materials and work in process inventory decreased primarily due to increased product demand; finished goods inventory increased at the Company's Norton location due to timing of shipments. Of the total finished goods inventory of \$1,002 thousand at June 26, 2010, \$497 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 Q2 2010 and the six months ended June 26, 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 June 26, 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 June 26, 2010 there were no borrowings under this line of credit. At June 26, 2010, the Company had \$373,851 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and \$626,149 available remaining on the Sovereign lease line.

As of June 26, 2010 production equipment included \$195 thousand of construction in progress and the Company had \$230 thousand in outstanding commitments to purchase production equipment. The Company intends to finance production equipment with existing cash balances and funds generated by operations.

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 June 26, 2010 consist of the following:

Payments Due by Period

		Remaining in	FY 2011 -	FY 2014 -
	<u>Total</u>	<u>FY 2010</u>	<u>FY 2013</u>	<u>FY 1016</u>
Capital lease obligations including interest	\$ 394,799	\$ 120,990	\$ 273,809	\$ --
Purchase commitments for production equipment	\$ 230,194	\$ 230,194	\$ --	\$ --
Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA.	\$802,500	\$ 60,000	\$ 406,500	\$ 336,000

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 4T 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

Edgar Filing: CPS TECHNOLOGIES CORP/DE/ - Form 10-Q

There have been no material changes to the risk factors as discussed in our 2009 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

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

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: August 10, 2010

/s/ Grant C. Bennett

Grant C. Bennett

President and Treasurer

(Principal Executive Officer and Principal Financial Officer)