

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
May 11, 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 March 27, 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

H4-2832509

(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.  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 or a smaller reporting company. 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 issuer's classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of May 6, 2010: 12,624,959

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION

Balance Sheets (Unaudited)

(continued on next page)

|                               | March 27,<br>2010 | December 26,<br>2009 |
|-------------------------------|-------------------|----------------------|
| ASSETS                        | -----             | -----                |
| Current assets:               |                   |                      |
| Cash and cash equivalents     | \$ 836,223        | \$ 1,073,600         |
| Accounts receivable-trade     |                   |                      |
| net of allowance for doubtful |                   |                      |
| accounts                      |                   |                      |
| of \$5,000 at March 27, 2010  |                   |                      |
| and December 26, 2009         | 3,732,583         | 2,587,135            |
| Inventories                   | 1,726,615         | 2,072,210            |
| Prepaid expenses              | 68,953            | 66,761               |
| Deferred taxes                | 634,696           | 634,696              |
|                               | -----             | -----                |

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|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Total current assets                | 6,999,070    | 6,434,402    |
|                                     | -----        | -----        |
| Property and equipment:             |              |              |
| Production equipment                | 6,139,351    | 5,959,449    |
| Furniture and office equipment      | 268,135      | 267,111      |
| Leasehold improvements              | 595,577      | 592,787      |
|                                     | -----        | -----        |
| Total cost                          | 7,003,063    | 6,819,347    |
| Accumulated depreciation            |              |              |
| and amortization                    | (4,956,417)  | (4,778,054)  |
| Construction in progress            | 54,272       | 66,541       |
|                                     | -----        | -----        |
| Net property and equipment          | 2,100,918    | 2,107,834    |
|                                     | -----        | -----        |
| Deferred taxes, non-current portion | 688,000      | 688,000      |
|                                     | -----        | -----        |
| Total Assets                        | \$ 9,787,988 | \$ 9,230,236 |
|                                     | =====        | =====        |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Balance Sheets (Unaudited)  
(continued)

| LIABILITIES AND STOCKHOLDERS'  | March 27,  | December 26, |
|--------------------------------|------------|--------------|
| EQUITY                         | 2010       | 2009         |
|                                | -----      | -----        |
| Current liabilities:           |            |              |
| Accounts payable               | \$ 904,513 | \$ 500,376   |
| Accrued expenses               | 710,297    | 644,258      |
| Current portion of obligations |            |              |
| under capital leases           | 233,439    | 269,422      |
|                                | -----      | -----        |
| Total current liabilities      | 1,848,249  | 1,414,056    |
| Obligations under capital      |            |              |
| leases less current portion    | 208,839    | 262,759      |
|                                | -----      | -----        |

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Total liabilities                   | 2,057,088    | 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 March 27, 2010            |              |              |
| and December 26, 2009               | 126,479      | 126,479      |
| Additional paid-in capital          | 32,927,826   | 32,914,990   |
| Accumulated deficit                 | (25,262,570) | (25,427,213) |
| Less cost of 22,883 common shares   |              |              |
| repurchased                         | (60,835)     | (60,835)     |
|                                     | -----        | -----        |
| Total stockholders` equity          | 7,730,900    | 7,553,421    |
|                                     | -----        | -----        |
| Total liabilities and stockholders` |              |              |
| equity                              | \$ 9,787,988 | \$ 9,230,236 |
|                                     | =====        | =====        |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Operations (Unaudited)

|   | Fiscal Quarters Ended |                   |
|---|-----------------------|-------------------|
|   | March 27,<br>2010     | March 28,<br>2009 |
|   | -----                 | -----             |
| Revenues:   |                       |                   |
| Product sales   | \$5,035,469           | \$2,520,810       |
| Research and development under<br>cooperative agreement | 373,717               | 531,831           |
|   | -----                 | -----             |
| Total revenues  | 5,409,186             | 3,052,641         |
| Cost of product sales                                   | 4,007,900             | 1,969,576         |
| Cost of research and development                        | 351,299               | 463,507           |

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|  |            |            |
|--|------------|------------|
| under cooperative agreement                                  |            |            |
|  | -----      | -----      |
| Gross Margin   | 1,049,987  | 619,558    |
| Selling, general, and administrative expense                 | 763,054    | 507,745    |
|  | -----      | -----      |
| Operating income   | 286,933    | 111,813    |
| Other expense, net   | (8,660)    | (7,823)    |
|  | -----      | -----      |
| Net income before income tax expense                         | 278,273    | 103,990    |
| Income tax expense   | 113,630    | 8,900      |
|  | -----      | -----      |
| Net income   | \$164,643  | \$95,090   |
|  | =====      | =====      |
| Net income per basic common share                            | \$ 0.01    | \$ 0.01    |
|  | -----      | -----      |
| Weighted average number of basic common shares outstanding   | 12,624,959 | 12,624,959 |
|  | =====      | =====      |
| Net income per diluted common share                          | \$ 0.01    | \$ 0.01    |
|  | -----      | -----      |
| Weighted average number of diluted common shares outstanding | 12,917,980 | 13,013,718 |
|  | =====      | =====      |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Cash Flows (Unaudited)

Fiscal Quarters Ended  
March 27,                      March 28,

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|   | 2010        | 2009       |
|---|-------------|------------|
|   | -----       | -----      |
| Cash flows from operating activities:   |             |            |
| Net income  | \$164,643   | \$95,090   |
| Adjustments to reconcile net income<br>to cash (used in) provided by<br>operating activities: |             |            |
| Depreciation & amortization   | 178,363     | 166,614    |
| Share-based compensation  | 12,836      | 2,886      |
| Changes in:   |             |            |
| Accounts receivable trade   | (1,145,448) | (4,191)    |
| Inventories   | 345,595     | (331,789)  |
| Prepaid expenses  | (2,192)     | 28,558     |
| Accounts payable  | 404,137     | 137,762    |
| Accrued expenses  | 66,039      | (251,424)  |
|   | -----       | -----      |
| Net cash (used in) provided by operating<br>activities  | 23,973      | (156,494)  |
|   | -----       | -----      |
| Cash flows from investing activities:   |             |            |
| Purchases of property and equipment   | (171,447)   | (150,705)  |
|   | -----       | -----      |
| Net cash used in investing<br>activities  | (171,447)   | (150,705)  |
|   | -----       | -----      |
| Cash flows from financing activities:   |             |            |
| Payment of capital lease obligations  | (89,903)    | (67,297)   |
|   | -----       | -----      |
| Net cash used in<br>financing activities  | (89,903)    | (67,297)   |
|   | -----       | -----      |
| Net decrease in cash and cash equivalents   | (237,377)   | (374,496)  |
| Cash and cash equivalents at beginning of period  | 1,073,600   | 1,158,419  |
|   | -----       | -----      |
| Cash and cash equivalents at end of period  | \$ 836,223  | \$ 783,923 |
|   | =====       | =====      |
| Supplemental cash flow information:   |             |            |

|                     |          |            |
|---------------------|----------|------------|
| Cash paid for taxes | \$ --    | \$ 138,000 |
| Interest paid       | \$ 8,661 | \$ 7,855   |

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 in the Registrant'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 Per Common and Common Equivalent Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common

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

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

|  | For periods ended          |                            |
|--|----------------------------|----------------------------|
|  | March 27,<br>2010<br>----- | March 28,<br>2009<br>----- |
| Basic EPS Computation:                           |                            |                            |
| Numerator:                                       |                            |                            |
| Net income                                       | \$ 164,643                 | \$ 95,090                  |
| Denominator:                                     |                            |                            |
| Weighted average<br>common shares<br>Outstanding | 12,624,959                 | 12,624,959                 |
| Basic EPS  | \$ 0.01                    | \$ 0.01                    |
| Diluted EPS Computation:                         |                            |                            |
| Numerator:                                       |                            |                            |
| Net income                                       | 164,643                    | 95,090                     |
| Denominator:                                     |                            |                            |
| Weighted average<br>common shares<br>Outstanding | 12,624,959                 | 12,624,959                 |
| stock options                                    | 293,021                    | 388,759                    |
| Total Shares                                     | 12,917,980                 | 13,013,718                 |
| Diluted EPS                                      | \$ 0.01                    | \$ 0.01                    |

#### (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 2009 Annual Report filed on Form 10-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 quarters ended March 27, 2010 or March 28, 2009. During the quarters ended March 27, 2010 and March 28, 2009, the Company recognized \$12,836 and \$2,886 respectively as share-based compensation expense related to previously granted shares under the plan.



(5) Inventories

Inventories consist of the following:

|                 | March 27,<br>2010 | December 26,<br>2009 |
|-----------------|-------------------|----------------------|
|                 | -----             | -----                |
| Raw materials   | \$ 352,335        | \$ 418,002           |
| Work in process | 647,323           | 671,202              |
| Finished goods  | 726,957           | 983,006              |
|                 | -----             | -----                |
| Inventories     | \$ 1,726,615      | \$2,072,210          |
|                 | =====             | =====                |

(6) Accrued Expenses

Accrued expenses consist of the following:

|                              | March 27,<br>2010 | December 26,<br>2009 |
|------------------------------|-------------------|----------------------|
|                              | -----             | -----                |
| Accrued legal and accounting | \$ 49,880         | \$ 69,124            |
| Accrued payroll              | 397,307           | 441,648              |
| Accrued other                | 174,407           | 129,784              |
| Accrued income tax payable   | 88,703            | 3,702                |
|                              | -----             | -----                |
|                              | \$ 710,297        | \$ 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 expire in May 2010. 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 March 27, 2010, the Company was in compliance with these covenants. Management believes it is likely that Sovereign Bank and the Company will renew the line and the equipment finance facility agreement at the end of the term in May 2010. The Company believes but can give no assurance that it could obtain similar lease facilities from other lenders. At March 27, 2010 there were no borrowings under this line of credit. At March 27, 2010, the Company had \$442,278 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and \$557,722 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 \$85,000 for federal income taxes for the quarter ended March 27, 2010. This provision is based on the estimated effective federal corporate tax rate for 2010. 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 \$28,630 for state income taxes during the quarter ended March 27, 2010.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the financial statements of the Company and notes thereto included in this report and the Company's Annual Report on Form 10-K for the year ended December 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 and electric 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 First Fiscal Quarter of 2010 (Q1 2010) Compared to the First Fiscal Quarter of 2009 (Q1 2009)

Total revenue was \$5,409 thousand in Q1 2010, a 77% increase from revenue of \$3,053 thousand in Q1 2009. The increase in revenues in Q1 2010 compared to Q1 2009 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. 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 Q1 2010 were \$5,122 thousand, a 74% increase from total operating expenses of \$2,941 thousand in Q1 2009.

Cost of product sales in Q1 2010 was \$4,008 thousand, a 103% increase from cost of product sales in Q1 2009 of \$1,970 thousand. Cost of product sales increased significantly due to increased product shipments. The gross profit on product sales in Q1 2010 was 20% compared to gross profit on product sales in Q1 2009 of 22%. This decrease in gross profit was primarily the result of costs incurred to support sudden increased shipments, particularly overtime pay.

Selling, general and administrative (SG&A) expenses were \$763 thousand in Q1 2010, a 50% increase over SG&A expenses of \$508 thousand in Q1 2009. The increase in SG&A expenses is primarily the result of increased commissions paid to sales representatives which in turn is the result of increased revenues.

Taxes in Q1 2010 reflect the estimated effective tax rate, which is higher than Q1 2009 due to reduction of the valuation allowance against deferred tax assets for net operating loss carryforwards in Q4 2009.

Liquidity and Capital Resources

The Company's cash and cash equivalents at March 27, 2010 were \$836 thousand compared to cash and cash equivalents at December 26, 2009 of \$1,074 thousand, a decrease of \$238 thousand or 22%. Cash declined as a result of changes in accounts receivable; management views this level of fluctuation as within the ordinary course of business to support increased shipments.

Accounts receivable increased to \$3,733 thousand at March 27, 2010 from \$2,587 thousand at December 26, 2009. This change reflects increased shipments in Q1 2010 and timing of collections in Q1 2010 compared to Q4 2009. The accounts receivable balance at March 27, 2010 and December 26, 2009 is net of allowance for doubtful accounts of \$5 thousand.

Inventories decreased to \$1,727 thousand at March 27, 2010 from \$2,072 thousand at December 26, 2009. Finished goods inventory decreased primarily due to increased shipments. Of the total finished goods inventory of \$727 thousand at March 27, 2010, \$397 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 Q1 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 expire in May 2010. 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 March 27, 2010, the Company was in compliance with these covenants. Management believes it is likely that Sovereign Bank and the Company will renew the line and the equipment finance facility agreement at the end of the term in May 2010. The Company believes but can give no assurance that it could obtain similar lease facilities from other lenders. At March 27, 2010 there were no borrowings under this line of credit. At March 27, 2010, the Company had \$442,278 net carrying value of capital equipment financed by the Sovereign equipment lease and finance facility and \$557,722 available remaining on the Sovereign lease line.

As of March 27, 2010 production equipment included \$54

thousand of construction in progress, and the Company had outstanding commitments to purchase \$190 thousand of production equipment. The Company intends to finance production equipment in construction in progress and outstanding commitments under the lease agreement with existing cash balances and funds generated by operations.

In July 2006 the Company entered into a 10-year 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 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 March 27, 2010 consist of the following:

|  | <u>Payments Due by Period</u> |                                 |                              |                              |
|--|-------------------------------|---------------------------------|------------------------------|------------------------------|
|  | <u>Total</u>                  | <u>Remaining in<br/>FY 2010</u> | <u>FY 2011 -<br/>FY 2013</u> | <u>FY 2014 -<br/>FY 2016</u> |
| Capital lease obligations including interest   | \$ 469,736                    | \$ 195,927                      | \$ 273,809                   | \$ --                        |
| Purchase commitments for production equipment  | \$ 190,000                    | \$ 190,000                      | \$--                         | \$--                         |
| Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA. | \$832,500                     | \$ 90,000                       | \$ 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

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: May 11, 2010

/s/ Grant C. Bennett

Grant C. Bennett

President and Treasurer

(Principal Executive Officer and Principal Financial Officer)