

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
May 12, 2009

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 28, 2009  
or

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

Commission file number 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

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 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 7, 2009: 12,624,959

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION

Balance Sheets (Unaudited)

(continued on next page)

|                                  | March 28,<br>2009 | December 27,<br>2008 |
|----------------------------------|-------------------|----------------------|
| ASSETS                           | -----             | -----                |
| Current assets:                  |                   |                      |
| Cash and cash equivalents        | \$ 783,923        | \$ 1,158,419         |
| Accounts receivable-trade        |                   |                      |
| net of allowance for doubtful    |                   |                      |
| accounts                         |                   |                      |
| of \$12,804 at March 28, 2009    |                   |                      |
| and \$5,460 at December 27, 2008 | 2,143,879         | 2,139,688            |
| Inventories                      | 2,021,489         | 1,689,700            |
| Prepaid expenses                 | 37,396            | 65,954               |
| Deferred Taxes                   | 843,155           | 843,155              |
|                                  | -----             | -----                |
| Total current assets             | 5,829,842         | 5,896,916            |
|                                  | -----             | -----                |
| Property and equipment:          |                   |                      |
| Production equipment             | 5,399,581         | 5,399,581            |
| Furniture and office equipment   | 266,959           | 262,976              |

|                            |              |              |
|----------------------------|--------------|--------------|
| Leasehold improvements     | 556,219      | 460,054      |
|                            | -----        | -----        |
| Total cost                 | 6,222,759    | 6,122,611    |
| Accumulated depreciation   |              |              |
| and amortization           | (4,220,719)  | (4,054,105)  |
| Construction in progress   | 452,144      | 401,587      |
|                            | -----        | -----        |
| Net property and equipment | 2,454,184    | 2,470,093    |
|                            | -----        | -----        |
| Total Assets               | \$ 8,284,026 | \$ 8,367,009 |
|                            | =====        | =====        |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Balance Sheets (Unaudited)  
(continued)

| LIABILITIES AND STOCKHOLDERS`<br>EQUITY | March 28,<br>2009 | December 27,<br>2008 |
|---|-------------------|----------------------|
|   | -----             | -----                |
| Current liabilities:                    |                   |                      |
| Accounts Payable                        | \$ 426,696        | \$ 288,934           |
| Accrued Expenses                        | 429,283           | 680,707              |
| Current portion of obligations          |                   |                      |
| under capital leases                    | 250,226           | 264,489              |
|   | -----             | -----                |
| Total current liabilities               | 1,106,205         | 1,234,130            |
| Obligations under capital               |                   |                      |
| leases less current portion             | 99,159            | 152,193              |
|   | -----             | -----                |
| Total liabilities                       | 1,205,364         | 1,386,323            |
|   | -----             | -----                |
| Stockholders` equity:                   |                   |                      |
| Common stock, \$0.01 par value,         |                   |                      |
| authorized 15,000,000 shares;           |                   |                      |
| issued 12,647,842 shares at March 28,   |                   |                      |
| 2009                                    |                   |                      |

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|  |                       |              |              |
|--|-----------------------|--------------|--------------|
|  | and December 27, 2008 | 126,479      | 126,479      |
| Additional paid-in capital                 |                       | 32,907,556   | 32,904,670   |
| Accumulated deficit                        |                       | (25,894,538) | (25,989,628) |
| Less cost of 22,883 common shares          |                       |              |              |
| Repurchased                                |                       | (60,835)     | (60,835)     |
|  |                       | -----        | -----        |
| Total stockholders` equity                 |                       | 7,078,662    | 6,980,686    |
|  |                       | -----        | -----        |
| Total liabilities and stockholders` equity |                       | \$ 8,284,026 | \$ 8,367,009 |
|  |                       | =====        | =====        |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Operations (Unaudited)

|  |  | Fiscal Quarters Ended |                   |
|--|--|-----------------------|-------------------|
|  |  | March 28,<br>2009     | March 29,<br>2008 |
|  |  | -----                 | -----             |
| Revenues:  |  |                       |                   |
| Product sales  |  | 2,520,810             | 3,415,756         |
| Research and development under cooperative agreement |  | 531,831               | --                |
|  |  | -----                 | -----             |
| Total revenues                                       |  | 3,052,641             | 3,415,756         |
| Cost of product sales                                |  | 1,969,576             | 2,353,395         |
| Cost of research and development                     |  |                       |                   |
| under cooperative agreement                          |  | 463,507               | --                |
|  |  | -----                 | -----             |
| Gross Margin   |  | 619,558               | 1,062,361         |
| Selling, general, and administrative expense         |  | 507,745               | 574,532           |
|  |  | -----                 | -----             |
| Operating income                                     |  | 111,813               | 487,829           |
| Other expense, net                                   |  | (7,823)               | (12,124)          |

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|  |            |            |
|--|------------|------------|
|  | -----      | -----      |
| Net income before income tax expense                         | 103,990    | 475,705    |
| Income tax expense   | 8,900      | 53,000     |
|  | -----      | -----      |
| Net income   | \$95,090   | \$422,705  |
|  | =====      | =====      |
| Net income per basic common share                            | \$ 0.01    | \$ 0.03    |
|  | -----      | -----      |
| Weighted average number of basic common shares outstanding   | 12,624,959 | 12,551,959 |
|  | =====      | =====      |
| Net income per diluted common share                          | \$ 0.01    | \$ 0.03    |
|  | -----      | -----      |
| Weighted average number of diluted common shares outstanding | 13,013,718 | 13,272,947 |
|  | =====      | =====      |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Statements of Cash Flows (Unaudited)

|  | Fiscal Quarters Ended |                   |
|--|-----------------------|-------------------|
|  | March 28,<br>2009     | March 29,<br>2008 |
|  | -----                 | -----             |
| Cash flows from operating activities:  |                       |                   |
| Net income   | \$95,090              | \$422,705         |
| Adjustments to reconcile net income to cash (used) provided by operating activities: |                       |                   |
| Depreciation & amortization  | 166,614               | 139,644           |
| Share-based compensation   | 2,886                 | 10,119            |

|   |            |            |
|---|------------|------------|
| Changes in operating assets and liabilities:        |            |            |
| Accounts receivable trade                           | (4,191)    | (277,294)  |
| Inventories   | (331,789)  | (254,947)  |
| Prepaid expenses                                    | 28,558     | 2,279      |
| Accounts payable                                    | 137,762    | (22,358)   |
| Accrued expenses                                    | (251,424)  | (12,624)   |
|   | -----      | -----      |
| Net cash (used) provided by operating<br>Activities | (156,494)  | 7,524      |
|   | -----      | -----      |
| Cash flows from investing activities:               |            |            |
| Purchases of property and equipment                 | (150,705)  | (100,500)  |
|   | -----      | -----      |
| Net cash used in investing<br>Activities            | (150,705)  | (100,500)  |
|   | -----      | -----      |
| Cash flows from financing activities:               |            |            |
| Payment of capital lease obligations                | (67,297)   | (90,423)   |
|   | -----      | -----      |
| Net cash used by<br>financing activities            | (67,297)   | (90,423)   |
|   | -----      | -----      |
| Net decrease in cash and cash equivalents           | (374,496)  | (183,399)  |
| Cash and cash equivalents at beginning of period    | 1,158,419  | 472,059    |
|   | -----      | -----      |
| Cash and cash equivalents at end of period          | \$ 783,923 | \$ 288,660 |
|   | =====      | =====      |
| Supplemental cash flow information:                 |            |            |
| Prepaid expense transferred to equipment            | \$ --      | \$ 32,217  |
| Cash paid for taxes                                 | \$ 138,000 | \$ 52,456  |
| Interest paid                                       | \$ 7,855   | \$ 12,475  |

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION  
Notes to Financial Statement  
(Unaudited)

(1) Nature of Business

CPS Technologies Corporation (the `Company` or `CPS`) (formerly Ceramics Process Systems Corporation) provides advanced material solutions to the electronics, robotics, automotive and other industries. In 2008 the Company also entered into a cooperative agreement with the U.S. Army to further develop its composite technology to produce armor. The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

(2) Interim Financial Statements

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

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

The Company`s balance sheet at December 27, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Registrant`s Annual Report on Form 10-K for the year ended December 27, 2008.

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

(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 option and stock purchase rights.

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

|  | For periods ended |                   |
|--|-------------------|-------------------|
|  | March 28,<br>2009 | March 29,<br>2008 |
|  | -----             | -----             |
| Basic EPS Computation:                           |                   |                   |
| Numerator:                                       |                   |                   |
| Net income                                       | \$ 95,090         | \$ 422,705        |
| Denominator:                                     |                   |                   |
| Weighted average<br>Common shares<br>Outstanding | 12,624,959        | 12,551,959        |

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|                          |            |            |
|--------------------------|------------|------------|
| Basic EPS                | \$ 0.01    | \$ 0.03    |
| Diluted EPS Computation: |            |            |
| Numerator:               |            |            |
| Net income               | 95,090     | 422,705    |
| Denominator:             |            |            |
| Weighted average         |            |            |
| Common shares            |            |            |
| Outstanding              | 12,624,959 | 12,551,959 |
| Stock options            | 388,759    | 720,988    |
| Total Shares             | 13,013,718 | 13,272,947 |
| Diluted EPS              | \$ 0.01    | \$ 0.03    |

(4) Share-Based Payments

The Company maintains a stock incentive plan (the "Plan"), which is described more fully in Note 5 to the financial statements in the 2008 Annual Report filed on Form 10-K. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123, "Share-Based Payments (revised 2004)," (SFAS No. 123R) which requires the Company to measure 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). Under SFAS No. 123R, the Company provides an estimate of forfeitures at initial grant date. The Company elected the modified prospective transition method under SFAS No. 123R and accordingly has not restated periods prior to adoption. There were no shares granted under the Plan during the quarters ended March 28, 2009 and March 29, 2008. During the quarters ended March 28, 2009 and March 29, 2008 the company recognized \$2,886 and \$10,119 respectively as share-based compensation expense related to previously granted shares under the plan.

(5) Inventories

Inventories consist of the following:

|                 | March 28,<br>2009 | December 27,<br>2008 |
|-----------------|-------------------|----------------------|
|                 | -----             | -----                |
| Raw materials   | \$ 271,220        | \$ 246,614           |
| Work in process | 488,788           | 499,964              |
| Finished goods  | 1,261,481         | 943,122              |
|                 | -----             | -----                |
| Inventories     | \$ 2,021,489      | \$1,689,700          |
|                 | =====             | =====                |

(6) Accrued Expenses



Accrued expenses consist of the following:

|                              | March 28,<br>2009 | December 27,<br>2008 |
|------------------------------|-------------------|----------------------|
|                              | -----             | -----                |
| Accrued legal and accounting | \$ 46,432         | \$ 56,572            |
| Accrued payroll              | 251,638           | 393,871              |
| Accrued other                | 129,838           | 97,789               |
| Accrued income tax payable   | 1,375             | 132,475              |
|                              | -----             | -----                |
|                              | \$ 429,283        | \$ 680,707           |
|                              | =====             | =====                |

#### (7) Line of Credit and Equipment Lease Facility Agreements

In April 2005, the Company entered into a revolving line of credit and equipment lease arrangements with Sovereign Bank. 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%), subject to the Company complying with certain covenants. The line of credit has a limit of \$1 million, a one year term and has been extended to May 2010. As of March 28, 2009 there were no borrowings under the line of credit.

The equipment lease facility allows the Company to lease up to \$1.5 million of eligible capital equipment from Sovereign Bank. As of March 28, 2009, the Company has leased capital equipment with a net carrying value of \$591 thousand from Sovereign Bank under the lease facility agreement, and \$909 thousand of availability for future use under the lease facility agreement. Sovereign revised the equipment lease facility to be a \$1 million equipment line of credit rather than a \$1.5 million lease line starting May 5, 2009.

#### (8) Income Taxes

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

The Company recorded a tax provision of \$2,000 for federal income taxes for the quarter ended March 28, 2009. This provision is based on the federal corporate alternative minimum tax rate rather than the statutory graduated tax rates. The Company believes it will be able to use net operating loss carryforwards to offset federal taxes, other than the corporate alternative minimum tax, in fiscal 2009.

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

The Company recorded a tax provision of \$6,900 for state income taxes during the quarter ended March 28, 2009.

## ITEM 2 MANagements DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Forward-Looking Statements

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

### Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 27, 2008, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". There have been no material changes to these policies since December 27, 2008.

### Overview

CPS Technologies Corporation (the "Company" or "CPS") (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 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 2009 (Q1 2009) Compared to the First Fiscal Quarter of 2008 (Q1 2008)

Total revenue was \$3,053 thousand in Q1 2009, an 11% decrease from revenue of \$3,416 thousand in Q1 2008. The 11% decline in revenues in Q1 2009 compared to Q1 2008 primarily reflects the continuing challenging external economic environment. Rather steep declines in demand for heatspreaders for flip-chip integrated circuit packaging and slightly lower demand for baseplates for traction applications were somewhat but not fully offset by increased demand for hermetic metal packages, baseplates for hybrid vehicle applications and 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 significant volatility in demand in some specific end markets.

Total operating expenses in Q1 2009 were \$2,941 thousand, a 1% increase from total operating expenses of \$2,928 thousand in Q1 2008. Cost of product sales in Q1 2009 was \$1,970 thousand, a 16% decrease from cost of product sales in Q1 2008 of \$2,353 thousand.

Cost of product sales increased primarily as a result of changes in product mix. The gross profit on product sales in Q1 2009 was 22% compared to gross profit on product sales in Q1 2008 of 31%. This decrease in gross profit was primarily the result of declines in demand Q1 2009 compared to Q1 2008, and fixed costs being spread over decreased unit shipments.

Selling, general and administrative (SG&A) expenses were \$508 thousand in Q1 2009, a 12% decrease over SG&A expenses of \$575 thousand in Q1 2008. The decrease in SG&A expenses is primarily the result of decreased professional contract services used for system upgrade projects in Q1 2009 compared to Q1 2008.

### Liquidity and Capital Resources

The Company's cash and cash equivalents at March 28, 2009 were \$784 thousand compared to cash and cash equivalents at December 27, 2008 of \$1,158 thousand, a decrease of \$374 thousand or 32%. Cash declined as a result of changes in inventory levels and accounts receivable; management views this level of fluctuation as within the ordinary course of business.

Accounts receivable increased to \$2,144 thousand at March 28, 2009 from \$2,140 thousand at December 27, 2008. This change reflects timing of collections in Q1 2009 compared to Q4 2008. The accounts receivable balance at March 28, 2009 and December 27, 2008 is net of allowance for doubtful accounts of \$13 and \$5 thousand, respectively.

Inventories increased to \$2,021 thousand at March 28, 2009 from \$1,690 thousand at December 27, 2008. Finished goods inventory increased primarily due to increased inventory being held at customers' locations on consignment. This inventory is shipped under existing purchase orders and per customers' requests. Of the total finished goods inventory of \$1,261 thousand at March 28, 2009, \$694 thousand was located at customers' locations pursuant to consigned inventory agreements. Of the total finished goods inventory of \$943 thousand at December 27, 2008, \$630 thousand was located at customers' locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q1 2009 with existing cash balances and funds generated by operations. The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2009 from these same sources.

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

### Contractual Obligations

In April 2005, the Company entered line of credit and equipment lease agreements with Sovereign Bank. The line of credit is a revolving credit facility allowing the Company to borrow up to 80% of eligible accounts receivable, up to a maximum of \$1 million, subject to the Company complying with certain covenants. The line of credit has a one-year term. As of March 28, 2009 there were no borrowings under the line of credit. In May 2009 the term was extended for one year to May 2010.

The equipment lease facility allows the Company to lease up to \$1.5 million of eligible capital equipment. As of March 28, 2009, the Company has leased capital equipment with a net carrying value of \$591 thousand from Sovereign Bank under the lease facility agreement, and \$909 thousand of availability for future use under the lease facility agreement.

As of March 28, 2009 production equipment included \$452 thousand of construction in progress, and in addition, the Company had outstanding commitments to purchase \$67 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 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 March 28, 2009 consist of the following:

|  | <u>Payments Due by Period</u> |                                 |                              |                              |                               |
|--|-------------------------------|---------------------------------|------------------------------|------------------------------|-------------------------------|
|  | <u>Total</u>                  | <u>Remaining in<br/>FY 2009</u> | <u>FY 2010 -<br/>FY 2012</u> | <u>FY 2013 -<br/>FY 2015</u> | <u>FY 2016 and<br/>beyond</u> |
| Capital lease obligations including interest   | \$ 371,616                    | \$212,466                       | \$ 159,150                   | \$ --                        | \$ --                         |
| Purchase commitments for production equipment  | \$ 67,704                     | \$ 67,704                       | \$ --                        | \$ --                        | \$ --                         |
| Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA. | \$952,500                     | \$ 90,000                       | \$ 385,000                   | \$ 290,000                   | \$ 187,500                    |

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### ITEM 4 CONTROLS AND PROCEDURES

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

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

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None.

ITEM 1A RISK FACTORS

There have been no material changes to the risk factors as discussed in our 2007 Form 10-K

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

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K:

(a) Exhibits:

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

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

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

b. Reports on Form 8-K

On May 11, 2009 the Company filed a report on Form 8-K relating to the announcement of its financial results for the fiscal quarter ended March 28, 2009 as presented in a press release dated May 11, 2009.

SIGNATURES

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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 12, 2009

/s/ Grant C. Bennett

Grant C. Bennett

President