

CPS TECHNOLOGIES CORP/DE/
Form 10-Q
November 12, 2008

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 September 27, 2008
or

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

Commission file number 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

04-2832509

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification No.)

111 South Worcester Street
Norton MA
(Address of principal executive offices)

02766-2102

(Zip Code)

(508) 222-0614

Registrants Telephone Number, including Area Code:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. 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

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 November 03, 2008: 12,624,959.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

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

| | September 27, 2008 | December 29, 2007 |
|--|-----------------------|----------------------|
| ASSETS | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,227,997 | \$ 472,059 |
| Accounts receivable-trade | | |
| net of allowance for doubtful accounts | | |
| of \$5,461 | 2,187,164 | 2,389,672 |
| Inventories | 1,784,459 | 1,416,264 |
| Prepaid expenses | 79,197 | 54,791 |
| Deferred Taxes | 544,000 | 544,000 |
| | ----- | ----- |
| Total current assets | 5,822,817 | 4,876,786 |
| | ----- | ----- |
| Property and equipment: | | |
| Production equipment | 5,357,813 | 4,931,008 |
| Furniture and office equipment | 262,976 | 211,984 |
| Leasehold improvements | 453,293 | 385,220 |
| | ----- | ----- |
| Total cost | 6,074,082 | 5,528,212 |
| Accumulated depreciation | | |
| and amortization | (3,894,949) | (3,454,899) |
| Construction in progress | 223,517 | 56,962 |
| | ----- | ----- |

| | | |
|----------------------------|--------------|--------------|
| Net property and equipment | 2,402,650 | 2,130,275 |
| | ----- | ----- |
| Total Assets | \$ 8,225,467 | \$ 7,007,061 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

CPS TECHNOLOGIES CORPORATION
Consolidated Balance Sheets (Unaudited)
(continued)

| LIABILITIES AND STOCKHOLDERS` | September 27, | December 29, |
|--|---------------|--------------|
| EQUITY | 2008 | 2007 |
| | ----- | ----- |
| Current liabilities: | | |
| Accounts Payable | \$ 540,516 | \$ 508,129 |
| Accrued Expenses | 526,550 | 488,047 |
| Current portion of obligations under capital leases | 289,354 | 331,233 |
| | ----- | ----- |
| Total current liabilities | 1,356,420 | 1,327,409 |
| Obligations under capital leases less current portion | 210,654 | 273,638 |
| | ----- | ----- |
| Total liabilities | 1,567,074 | 1,601,047 |
| | ----- | ----- |
| Stockholders` equity: | | |
| Common stock, \$0.01 par value, authorized 15,000,000 shares; issued 12,647,842 shares at September 27, 2008 and 12,574,842 shares at December 30, 2007 | 126,479 | 125,749 |
| Additional paid-in capital | 32,901,943 | 32,805,064 |
| Accumulated deficit | (26,309,194) | (27,463,964) |
| Less cost of 22,883 common shares repurchased | (60,835) | (60,835) |
| | ----- | ----- |

| | | |
|---|--------------|--------------|
| Total stockholders` equity | 6,658,393 | 5,406,014 |
| | ----- | ----- |
| Total liabilities and stockholders` equity | \$ 8,225,467 | \$ 7,007,061 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

CPS TECHNOLOGIES CORPORATION
Consolidated Statements of Operations (Unaudited)

| | Fiscal Quarters Ended | | Nine month Periods Ended | |
|--|-----------------------|-----------------------|--------------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| | ----- | ----- | ----- | ----- |
| Product sales | \$ 3,580,350 | \$ 3,082,329 | \$ 11,468,175 | \$ 9,289,724 |
| Cost of product sales | 2,786,854 | 2,279,054 | 8,241,999 | 6,955,129 |
| | ----- | ----- | ----- | ----- |
| Gross Margin | 793,496 | 803,275 | 3,226,176 | 2,334,595 |
| Selling, general, and administrative expense | 612,932 | 544,642 | 1,909,432 | 1,543,494 |
| | ----- | ----- | ----- | ----- |
| Operating income | 180,564 | 258,633 | 1,316,744 | 791,101 |
| Other income(expense), net | (12,296) | (14,424) | (34,974) | (50,255) |
| | ----- | ----- | ----- | ----- |
| Net income before income tax expense | 168,268 | 244,209 | 1,281,770 | 740,846 |
| Income tax expense | 3,000 | 19,271 | 127,000 | 44,079 |
| | ----- | ----- | ----- | ----- |
| Net income | \$165,268 | \$224,938 | \$1,154,770 | \$696,767 |
| | ===== | ===== | ===== | ===== |
| Net income per basic common share | \$ 0.01 | \$ 0.02 | \$ 0.09 | \$ 0.06 |
| | ----- | ----- | ----- | ----- |
| Weighted average number of basic common shares outstanding | 12,621,003 | 12,546,959 | 12,578,490 | 12,539,999 |

| | | | | |
|----------------------------|------------|------------|------------|------------|
| | ===== | ===== | ===== | ===== |
| Net income per | | | | |
| diluted common share | \$ 0.01 | \$ 0.02 | \$ 0.09 | \$ 0.05 |
| | ----- | ----- | ----- | ----- |
| Weighted average number of | | | | |
| diluted common shares | | | | |
| outstanding | 13,265,264 | 13,344,888 | 13,252,628 | 13,297,247 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

CPS TECHNOLOGIES CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

| | Nine-Month Period Ended | |
|--|-------------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$1,154,770 | \$696,767 |
| Adjustments to reconcile net income | | |
| to cash provided by | | |
| operating activities: | | |
| Depreciation & amortization | 440,050 | 339,446 |
| Share-based compensation | 17,148 | 29,237 |
| Tax benefit from stock options | 6,819 | 3,242 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable trade | 202,508 | 734,624 |
| Inventories | (368,195) | (540,194) |
| Prepaid expenses | (56,623) | 2,307 |
| Accounts payable | 32,387 | (494,462) |
| Accrued expenses | 38,503 | (138,206) |
| | ----- | ----- |
| Net cash provided by operating | 1,467,367 | 632,761 |
| activities | | |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (515,078) | (442,437) |
| | ----- | ----- |

| | | |
|--|--------------|------------|
| Net cash used in investing activities | (515,078) | (442,437) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payment of capital lease obligations | (269,993) | (234,608) |
| Proceeds from issuance of common stock | 73,642 | 13,050 |
| | ----- | ----- |
| Net cash used by financing activities | (196,351) | (221,558) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 755,938 | (31,234) |
| Cash and cash equivalents at beginning of period | 472,059 | 517,540 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,227,997 | \$ 486,306 |
| | ===== | ===== |
| Supplemental cash flow information: | | |
| Acquisition of machinery under capital leases | \$ 165,130 | \$ 425,715 |
| Prepaid expense transferred to equipment | \$ 32,217 | \$ -- |
| Cash paid for taxes | \$ 72,640 | \$ 150,298 |
| Interest paid | \$ 35,414 | \$ 51,627 |

See accompanying notes to consolidated financial statements.

CPS TECHNOLOGIES CORPORATION
Notes to Consolidated 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.

(2) Interim Consolidated 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 consolidated 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 29, 2007 has been derived from the audited consolidated 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.

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For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant's Annual Report on Form 10-K for the year ended December 29, 2007.

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

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

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

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

| | Quarters Ended | | Nine-Month Periods Ended | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | September 27, 2008 ----- | September 29, 2007 ----- | September 27, 2008 ----- | September 29, 2007 ----- |
| Basic EPS Computation: | | | | |
| Numerator: | | | | |
| Net income | \$ 165,268 | \$ 224,938 | \$ 1,154,770 | \$ 696,767 |
| Denominator: | | | | |
| Weighted average Common shares Outstanding | 12,621,003 | 12,546,959 | 12,578,490 | 12,539,999 |
| Basic EPS | \$ 0.01 | \$ 0.02 | \$ 0.09 | \$ 0.06 |
| Diluted EPS Computation: | | | | |
| Numerator: | | | | |
| Net income | 165,268 | 224,938 | 1,154,770 | 696,767 |
| Denominator: | | | | |
| Weighted average Common shares Outstanding | 12,621,003 | 12,546,959 | 12,578,490 | 12,539,999 |
| Dilutive effect of Stock options | 644,261 | 797,929 | 674,138 | 757,248 |
| Total Shares | 13,265,264 | 13,344,888 | 13,252,628 | 13,297,247 |
| Diluted EPS | \$ 0.01 | \$ 0.02 | \$ 0.09 | \$ 0.05 |

(4) Share-Based Payments

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The Company maintains a stock incentive plan (the "Plan"), which is described more fully in Note 5 to the consolidated financial statements in the 2007 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. There were 8,000 shares granted under the Plan during the quarter ended September 27, 2008 and no shares granted under the Plan during the quarter ended September 29, 2007. During the three and nine months ended September 27, 2008, the Company recognized (\$5,106), a \$5,894 expense and a recovery of \$11,000, and \$17,148 respectively as share-based compensation expense related to previously granted shares under the Plan. During the three and nine months ended September 29, 2007, the Company recognized \$3,946 and \$29,237 respectively as share-based compensation expense related to previously granted shares under the Plan.

(5) Inventories

Inventories consist of the following:

| | September 27, 2008 | December 29, 2007 |
|-----------------|-----------------------|----------------------|
| | ----- | ----- |
| Raw materials | \$ 385,476 | \$ 257,387 |
| Work in process | 514,606 | 273,197 |
| Finished goods | 884,377 | 885,680 |
| | ----- | ----- |
| Inventories | \$ 1,784,459 | \$ 1,416,264 |
| | ===== | ===== |

(6) Accrued Expenses

Accrued expenses consist of the following:

| | September 27, 2008 | December 29, 2007 |
|------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| Accrued legal and accounting | \$ 55,539 | \$ 51,950 |
| Accrued payroll | 264,844 | 311,324 |
| Accrued other | 111,426 | 77,573 |
| Accrued income tax payable | 94,741 | 47,200 |
| | ----- | ----- |
| | \$ 526,550 | \$ 488,047 |
| | ===== | ===== |

(7) Line of Credit and Equipment Lease Facility Agreements

In April 2005, the Company entered into line of credit and equipment lease agreements with Sovereign Bank. The line of credit is 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, has been renewed each year since 2005, and has been extended to May 2009. As of September 27, 2008 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 September 27, 2008, the Company has leased capital equipment with a net carrying value of \$724 thousand from Sovereign Bank under the lease facility agreement.

(8) Income Taxes

At December 29, 2007, the Company had approximately \$7,000,000 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 and \$23,000 for federal income taxes for the three and nine months ended September 27, 2008, 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 2008.

The Company reduced the valuation allowance against deferred tax assets at the end of 2007 resulting in a deferred tax asset account of \$544,000 on the Company's Consolidated Balance Sheet as of year-end 2007. 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 \$1,000 and \$104,000 for state income taxes during the three and nine months ended September 27, 2008.

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 consolidated 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 29, 2007.

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 consolidated 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 29, 2007, 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 29, 2007.

Overview

CPS Technologies Corporation (the `Company` or `CPS`) provides advanced material solutions to the electronics, robotics, automotive and other industries. Our primary advanced material solution is metal matrix composites, 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 - improved thermal conductivity, thermal expansion matching, stiffness and light weight - which enable higher performance and higher reliability in our customers` products.

Like plastics many years ago, this new class of materials 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.

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; CPS has been supplying prototypes into this end market for several years. Management believes that several of the programs for which we are selling prototypes will enter volume production in the future.

We are also actively working with customers in end markets at the beginning stages of the adoption lifecycle. An example is CPS`s HybridTech armor technology which has the potential for greater multi-hit capability, lighter weight and lower costs than conventional armor.

Our products are manufactured by proprietary processes we have developed including the QuicksetTM Injection Molding Process (`Quickset Process`) and the QuickCastTM Pressure Infiltration Process (`QuickCast Process`).

CPS was incorporated in Massachusetts in 1984 as Ceramics Process Systems Corporation and reincorporated in Delaware in April 1987 through a merger into a wholly-owned Delaware subsidiary organized for purposes of the reincorporation. In July 1987, CPS completed our initial public offering of 1.5 million shares of our Common Stock. In March 2007, Ceramics Process Systems Corporation was renamed CPS Technologies Corporation.

Results of Operations for the Third Fiscal Quarter of 2008 (Q3 2008) Compared to the Third Fiscal Quarter of 2007 (Q3 2007)

Total revenue was \$3,580 thousand in Q3 2008, a 16% increase from revenue of \$3,082 thousand in Q3 2007. In Q3 2008 revenue from baseplates for hermetic metal packages, AlSiC lids and heatspreaders, and AlSiC baseplates for motor controllers increased while revenue from baseplates for cellular telephone basestations declined compared to the same period a year ago.

Total operating expenses in Q3 2008 were \$3,400 thousand, a 20% increase from total operating expenses in Q3 2007 of \$2,824 thousand. Cost of product sales in Q3 2008 were \$2,787 thousand, a 22% increase from cost of product

sales in Q3 2007 of \$2,279 thousand. Cost of product sales increased due to increased material, labor and overhead costs needed to support the increased revenues. The gross profit on product sales in Q3 2008 was 22% compared to gross profit on product sales in Q3 2007 of 26%. The gross margin declined due to higher material and labor costs associated with changes in product mix, and with increased headcount brought on board earlier in 2008 to support higher revenue levels.

Selling, general and administrative (SG&A) expenses were \$613 thousand in Q3 2008, a 13% increase from SG&A expenses of \$545 thousand in Q3 2007. The increase in SG&A expenses is primarily the result of increases in salary cost associated with increased headcount, and increased commissions paid to sales representatives due to increased shipments in territories in which the Company has commissioned representatives.

Results of Operations for First Nine Months 2008 Compared to First Nine Months of 2007

Total revenue was \$11,468 thousand in the first nine months of 2008, a 23% increase from total revenue of \$9,290 thousand in the first nine months of 2007. Demand for lids and heatspreaders, baseplates for motor control modules, and hermetic metal packages increased while demand for baseplates for cellular telephone basestations decreased in the first nine months of 2008 compared to the same period a year ago.

Total operating expenses in the first nine months of 2008 were \$10,151 thousand, a 19% increase from total operating expenses of \$8,499 thousand in the first nine months of 2007. Cost of product sales in the first nine months of 2008 were \$8,242 thousand, a 19% increase from cost of product sales of \$6,955 thousand in the first nine months of 2007. Cost of product sales increased primarily as a result of increased unit shipments and increased headcount both in direct labor and overhead. Gross profit on product sales in the first nine months of 2008 was 28% compared to gross profit on product sales of 25% in the first nine months of 2007. This increase in gross profit is primarily the result of higher revenues in the first nine months 2008 compared to the first nine months 2007, resulting in fixed costs being spread over a much larger revenue base over the first nine months of 2008 compared to the first nine months of 2007.

Selling, general and administrative (SG&A) expenses were \$1,909 thousand in the first nine months of 2008, a 24% increase from SG&A expenses of \$1,543 thousand in the first nine months of 2007. The increase in SG&A expenses is primarily the result of higher commissions paid to sales representatives, higher sales promotion expenses and higher salary costs associated with increased personnel additions in the sales and administrative functions.

Liquidity and Capital Resources

The Company's cash and cash equivalents at September 27, 2008 were \$1,228 thousand, an increase of 160% or \$756 thousand compared to cash and cash equivalents of \$472 thousand at December 29, 2007. This increase in cash and cash equivalents is primarily the result of increased cash collected in Q3 from increase revenues of Q2 2008 compared to Q4 2007. In Q3 2008 the Company made investments in capital equipment and process improvements to support future growth and to achieve cost reductions, but as Q3 progressed and the macro economic credit crisis unfolded, the Company has curtailed investments. The Company expects that the quarter-end cash balance will fluctuate in future quarters as revenues fluctuate, and as the Company assesses the condition of economy.

Accounts receivable declined to \$2,187 thousand at September 27, 2008 from \$2,390 thousand at December 27, 2007. This change reflects the size and timing of shipments and collections in Q3 2008 compared to Q4 2007; there has been no significant change in days sales outstanding. The accounts receivable balance at September 27, 2008 and December 29, 2007 is net of allowance for doubtful accounts of \$5 thousand.

Inventories increased to \$1,784 thousand at September 27, 2008 from \$1,416 thousand at December 29, 2007. Raw materials inventory increased primarily due to purchased components used in the Company's hermetic packaging product line; work-in-process inventory increased due to product mix changes; finished goods inventory remained constant. The average cost of a hermetic metal package is higher than the average cost of an AlSiC product so as

hermetic metal package shipments have grown faster than AISiC shipments in 2008, the value of work-in-process inventory has increased.

All consigned inventory is shipped under existing purchase orders and per customers` requests. Of the total finished goods inventory of \$884 thousand at September 27, 2008, \$554 thousand was located at customers` locations pursuant to consigned inventory agreements. Of the total finished goods inventory of \$886 thousand at December 29, 2007, \$515 thousand was located at customers` locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q3 2008 and the nine months ended September 27, 2008 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 2008 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. In the second quarter of 2008 the term was extended to May 2009. As of September 27, 2008 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. As of September 27, 2008, the Company has leased capital equipment with a carrying value of \$724 thousand under the lease facility agreement.

As of September 27, 2008 production equipment included \$224 thousand of construction in progress, and in addition, the Company had outstanding commitments to purchase \$145 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 September 27, 2008 consist of the following:

| | | <u>Payments Due by Period</u> | | | |
|--|----------------|-------------------------------|----------------|---------------|-------|
| | Remaining in | FY 2009 - | FY 2012 - | FY 2015 and | |
| <u>Total</u> | <u>FY 2008</u> | <u>FY 2011</u> | <u>FY 2014</u> | <u>beyond</u> | |
| Capital lease obligations including interest | \$ 537,996 | \$ 92,704 | \$ 445,292 | \$ -- | \$ -- |

| | | | | | |
|--|-------------|------------|------------|------------|------------|
| Purchase commitments for production equipment | \$ 145,153 | \$ 145,153 | \$ -- | \$ -- | \$ -- |
| Operating lease obligation for facilities at 111 South Worcester Street, Norton, MA. | \$1,010,500 | \$ 29,000 | \$ 367,500 | \$ 427,000 | \$ 187,000 |

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 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 November 11, 2008 the Company filed a report on Form 8-K relating to the announcement of its financial results for the quarter ended September 27, 2008 as presented in a press release dated November 10, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CPS TECHNOLOGIES CORPORATION

(Registrant)

Date: November 11, 2008

/s/ Grant C. Bennett

Grant C. Bennett

President