CPS TECHNOLOGIES CORP/DE/
Form 10-Q
August 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended July 2, 2011
or

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

Commission file number 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

(508) 222-0614

Registrants Telephone Number, including Area Code:

CPS Technologies Corporation

111 South Worcester Street

Norton, MA 02766-2102

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of August 15, 2011: 12,739,709.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

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

	July 2, 2011	December 25, 2010
ASSETS	-------------	-------------
Current assets:		
Cash and cash equivalents	$ 1,260,222	$ 1,803,222
Accounts receivable-trade net of allowance for doubtful accounts of $5,000 at July 2, 2011 and December 25, 2010	3,833,926	3,922,962
Inventories	2,051,878	1,523,758
Prepaid expenses	122,549	76,597

Deferred taxes	340,079	354,774
	-------------	-------------
Total current assets	7,608,654	7,681,295
	-------------	-------------
Property and equipment:		
Production equipment	6,637,755	6,462,311
Furniture and office equipment	337,927	325,880
Leasehold improvements	699,832	677,529
	-------------	-------------
Total cost	7,675,514	7,465,720
Accumulated depreciation		
and amortization	(5,766,655)	(5,402,781)
Construction in progress	228,363	121,362
	-------------	-------------
Net property and equipment	2,137,222	2,184,301
	-------------	-------------
Deferred taxes, non-current portion	778,050	745,505
	-------------	-------------
Total assets	$ 10,523,926	$ 10,611,101
	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(concluded)

LIABILITIES AND STOCKHOLDERS` EQUITY	July 2, 2011	December 25, 2010
	-------------	-------------
Current liabilities:		
Accounts payable	$ 946,095	$ 812,564
Accrued expenses	592,622	884,259
Current portion of obligations		
under capital leases	215,303	253,167
	-------------	-------------
Total current liabilities	1,754,020	1,949,990
Obligations under capital		

leases less current portion	75,215	175,561
	-------------	-------------
Total liabilities	1,829,235	2,125,551
	-------------	-------------
Commitments		
Stockholders` equity:		
Common stock, $0.01 par value,		
authorized 15,000,000 shares;		
at July 2, 2011 and December 25, 2010;		
issued 12,762,592 and 12,698,842 shares		
at July 2, 2011 and December 25, 2010, respectively;		
outstanding 12,739,709 and 12,675,959 shares		
at July 2, 2011 and December 25, 2010, respectively;	127,626	126,989
Additional paid-in capital	33,315,598	33,136,420
Accumulated deficit	(24,687,698)	(24,717,024)
Less cost of 22,883 common shares		
repurchased	(60,835)	(60,835)
	-------------	-------------
Total stockholders` equity	8,694,691	8,485,550
	-------------	-------------
Total liabilities and stockholders`		
equity	$ 10,523,926	$ 10,611,101
	==========	==========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Six Month Periods Ended	
	July 2, 2011	June 26, 2010	July 2, 2011	June 26, 2010
	------------	------------	------------	------------
Revenues:				
Product sales	$ 4,292,369	$4,970,762	$ 9,340,227	$ 10,006,231

Research and development under cooperative agreement	549,391	215,921	1,341,878	589,638
	------------	------------	------------	------------
Total revenues	4,841,760	5,186,683	10,682,105	10,595,869
Cost of product sales	3,380,055	3,608,979	7,599,920	7,616,879
Cost of research and development under cooperative agreement	502,289	193,296	1,266,709	544,595
	------------	------------	------------	------------
Gross Margin	959,416	1,384,408	1,815,476	2,434,395
Selling, general, and administrative expense	927,068	663,419	1,744,014	1,426,473
	------------	------------	------------	------------
Operating income	32,348	720,989	71,462	1,007,922
Other income (expense), net	(8,065)	(7,816)	(17,736)	(16,476)
	------------	------------	------------	------------
Net income before income tax expense	24,283	713,173	53,726	991,446
Income tax expense	11,100	263,370	24,400	377,000
	------------	------------	------------	------------
Net income	$13,183	$449,803	$29,326	$614,446
	=========	=========	=========	=========
Net income per basic common share	$ 0.00	$ 0.04	$ 0.00	$ 0.05
	------------	------------	------------	------------
Weighted average number of basic common shares outstanding	12,738,390	12,624,959	12,726,168	12,624,959
	=========	=========	=========	=========
Net income per diluted common share	$ 0.00	$ 0.03	$ 0.00	$ 0.05
	------------	------------	------------	------------

Weighted average number of diluted common shares outstanding	13,229,112	12,938,087	13,204,616	12,928,034
	=========	=========	=========	=========

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Six Month Periods Ended	
	July 2, 2011	June 26, 2010
	---------	---------
Cash flows from operating activities:		
Net income	$ 29,326	$ 614,446
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation & amortization	363,874	358,189
Share-based compensation	112,491	32,054
Deferred taxes	14,200	--
Excess tax benefit from stock options exercised	(32,050)	--
Changes in:		
Accounts receivable trade	89,036	(107,834)
Inventories	(528,120)	123,242
Prepaid expenses	(45,970)	14,294
Accounts payable	133,531	37,242
Accrued expenses	(291,637)	398,306
	---------	---------
Net cash provided by (used in) operating activities	(155,319)	1,469,939
	---------	---------
Cash flows from investing activities:		
Purchases of property and equipment	(316,795)	(341,760)
	---------	---------
Net cash used in investing activities	(316,795)	(341,760)

	---------	---------
Cash flows from financing activities:		
Payment of capital lease obligations	(138,210)	(158,329)
Excess tax benefit from stock options exercised	32,050	--
Proceeds from issuance of common stock	35,274	--
	---------	---------
Net cash used in financing activities	(70,886)	(158,329)
	---------	---------
Net increase (decrease) in cash and cash equivalents	(543,000)	969,850
Cash and cash equivalents at beginning of period	1,803,222	1,073,600
	---------	---------
Cash and cash equivalents at end of period	$ 1,260,222	$ 2,043,450
	=========	=========
Supplemental cash flow information:		
Cash paid for taxes	$ 76,500	$ --
Interest paid	$ 17,736	$ 16,477

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 25, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included CPS`s Annual Report on Form 10-K for the year ended December 25, 2010.

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 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:

	Fiscal Quarters Ended		Six Month Periods Ended	
	July 2, 2011	June 26, 2010	July 2, 2011	June 26, 2010
	------------	------------	------------	------------
Basic EPS Computation:				
Numerator:				
Net income	$ 13,183	$ 449,803	$ 29,326	$ 614,446
Denominator:				
Weighted average Common shares Outstanding	12,738,390	12,624,959	12,726,168	12,624,959
Basic EPS	$ 0.00	$ 0.04	$ 0.00	$ 0.05
Diluted EPS Computation:				
Numerator:				
Net income	$ 13,183	$ 449,803	$ 29,326	$ 614,446
Denominator:				
Weighted average Common shares Outstanding	12,738,390	12,624,959	12,726,168	12,624,959

Dilutive effect of stock options	490,722	313,128	478,448	303,075
Total Shares	13,229,112	12,938,087	13,204,616	12,928,034
Diluted EPS	$ 0.00	$ 0.03	$ 0.00	$ 0.05

(4) Share-Based Payments

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

There were no shares granted under the 2009 Stock Incentive Plan (the "Plan") during the quarters ended July 2, 2011 and June 26, 2010. During the three and six months ended July 2, 2011, the Company recognized $61,595 and $112,491, respectively, as shared-based compensation expense related to previously granted shared under the Plan. During the three and six months ended June 26, 2010, the Company recognized $19,218 and $32,054, respectively, as shared-based compensation expense related to previously granted shares under the Plan. During the three and six months ended July 2, 2011 the Company issued 20,000 and 63,750 share, respectively, as a result of option exercises.

(5) Inventories

Inventories consist of the following:

	July 2, 2011	December 25, 2010
Raw materials	$ 406,468	$ 360,306
Work in process	387,132	298,004
Finished goods	1,258,278	865,448
Inventories	$ 2,051,878	$ 1,523,758

(6) Accrued Expenses

Accrued expenses consist of the following:

	July 2, 2011	December 25, 2010
Accrued legal and accounting	$ 59,132	$ 51,200

Accrued payroll	355,583	578,021
Accrued other	177,907	255,038
	------------	------------
	$ 592,622	$ 884,259
	=======	=======

(7) Line of Credit and Equipment Lease Facility Agreements

The Company has a $1 million revolving line of credit and a $1.25 million equipment finance facility with Sovereign Bank through maturity in May 2012. 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 July 2, 2011, the Company was in compliance with these covenants. The Company believes but can give no assurance that it could obtain similar lease facilities from other lenders. At July 2, 2011 there were no borrowings under this line of credit. At July 2, 2011, the Company had capital lease obligations outstanding totaling $290,518 related to equipment financed by the Sovereign equipment lease and finance facility and $959,482 available remaining on the Sovereign lease line.

(8) Income Taxes

At December 25, 2010, the Company had approximately $1,731,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company recorded a tax provision of $6,700 and $15,100 for federal income taxes and a tax provision of $4,400 and $9,300 for state income taxes during the three and six months ended July 2, 2011, respectively.

The Company has a current and non-current deferred tax asset aggregating $1,118,129 and $1,100,279 on the Company`s balance sheet at July 2, 2011 and December 25, 2010, respectively. 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 and as such no valuation allowance has been provided against the deferred tax asset.

(9) Commitment

In February 2011, the Company entered into a one-year lease with five options to renew for one year periods, for approximately 13,800 square feet of rentable space inside a larger building located at 79 Walton Street, Attleboro, Massachusetts. Monthly rent, which includes utilities, is $6,900.

As of July 2, 2011 production equipment included $228 thousand of construction in progress and the company the Company had $230 thousand in outstanding commitments to purchase production equipment. The Company intends to finance production equipment with existing cash balances and funds generated by operations or with the Sovereign equipment finance facility.

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 25, 2010.

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 25, 2010, 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 25, 2010.

Overview

CPS Technologies Corporation (the `Company` or `CPS`) 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 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 its composite technology to produce armor.

The Company`s products are generally used in high-power, high-reliability applications. These applications always involve energy use or energy generation and the Company`s products allow higher performance and improved energy efficiency. The Company is an important participant in the growing movement towards alternative energy and "green" lifestyles. For example, the Company`s products are used in mass transit, hybrid and electric cars, wind-turbines for electricity generation as well as routers and switches for the internet which in turn allows telecommuting.

Our primary advanced material solution is metal matrix composites (MMCs), a new class of materials which are a combination of metal and ceramic. CPS has a leading, proprietary position in metal matrix composites. Metal matrix composites have several superior properties compared to conventional materials including improved thermal conductivity, thermal expansion matching, stiffness and light weight which enable higher performance and higher reliability in our customers` products.

Like plastics several decades ago, we believe metal-matrix composites will penetrate many end markets over many years. CPS management believes our business model of providing advanced material solutions to a portfolio of high growth end markets which are, at any point in time, in various stages of the technology adoption lifecycle, provides

CPS with the opportunity for sustained growth and a diversified customer base. We believe we have validated this model as we are now supplying customers at all stages of the technology adoption lifecycle.

CPS is the leader in supplying metal matrix composites to certain high growth electronics end markets which are well along in the adoption lifecycle and therefore generating significant demand. These end markets include high-performance integrated circuits and circuit boards used in internet switches and routers, as well as motor controllers used in high-speed electric trains, subway cars and wind turbines. CPS supplies heat spreaders, lids and baseplates to customers in these end markets. CPS is a fully qualified manufacturer for many of the world`s largest electronics OEMs.

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

Concurrently, CPS is participating in certain end markets that are at an earlier stage of the adoption lifecycle. Management believes these end markets will generate additional growth longer-term. An example of such an end market is motor controllers for hybrid automotives and trucks.

We are also actively working with customers in end markets at the beginning stages of the adoption lifecycle. An example of such a market is the market for armor. In 2008 the Company entered into a cooperative agreement with the Army Research Laboratory ("ARL") to further develop large hybrid metal matrix composite modules which integrally combine metal matrix composites and ceramics by enveloping ceramic tiles with MMCs. This system offers a lighter weight, durable, multi-hit capable and cost competitive alternative to conventional steel, aluminum and ceramic based armor systems. CPS hybrid hard face armor modules are comprised of multiple materials completely enveloped within and mechanically and chemically bonded to lightweight and stiff aluminum metal matrix composites.

The Company believes that its hybrid hard face armor tiles will find application in many military vehicles as well as armored commercial vehicles.

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

<u>Results of Operations for the Second Fiscal Quarter of 2011 (Q2 2011) Compared to the Second Fiscal Quarter of 2010 (Q2 2010); (all $ in 000`s)</u>

Total revenue was $4,842 in Q2 2011, a 7% decrease from revenue of $5,187 in Q2 2010. The decrease in revenues is due to significantly reduced demand for lids and heatspreaders used in network and internet routers and switches offset by increased demand for baseplates for traction applications and hybrid automobile applications. The demand for heatspreaders used in network and internet routers and switches continues to be quite volatile from quarter to quarter. We are pleased that our diversification across multiple end markets has provided some protection against the volatility in demand in some specific end markets.

Total operating expenses in Q2 2011 were $4,809, a 7% increase from total operating expenses in Q2 2010 of $4,466.

Cost of product sales in Q2 2011 were $3,380, a 6% decrease from cost of product sales in Q2 2010 of $3,609. Cost of product sales decreased due to product mix and the overall decrease of revenues during the quarter. The gross profit on product sales in Q2 2011 was 20% compared to gross profit on product sales in Q2 2010 of 27%. This change is primarily due to fixed costs being spread over a smaller base in Q2 2011, as well as product mix.

Selling, general and administrative (SG&A) expenses were $927 in Q2 2011, a 40% increase from SG&A expenses of $663 in Q2 2010. The increase in SG&A expenses is primarily the result of compensation expense related to option grants and 401k company match, as well as increased professional expenses related to monthly and quarterly VAT returns in certain European countries.

Results of Operations for First Six Months 2011 Compared to First Six Months of 2010 (all $ in 000`s)

Total revenue was $10,682 in the first six months of 2011, compared to total revenue of $10,596 in the first six months of 2010. Revenues were essentially flat year to year in these six month periods. Declines in demand for lids and heatspreaders used in network and internet routers and switches was offset by increased demand for baseplates for traction applications and hybrid automobile applications.

Total operating expenses in the first six months of 2011 were $10,611, an 11% increase from total operating expenses of $9,588 in the first six months of 2010. Cost of product sales in the first six months of 2011 were $7,600 and were essentially flat from cost of product sales of $7,617in the first six months of 2010.

Gross profit on product sales in the first six months of 2011 was 19% compared with gross profit on product sales of 24% in the first six months of 2010. This decrease in gross profit was primarily due to a manufacturing yield problem developed in second half of 2010 and was not fully resolved until well into Q1 2011.

Selling, general and administrative (SG&A) expenses were $1,744 in the first six months of 2011, an increase from SG&A expenses of $1,426 in the first six months of 2010. The increase in SG&A expenses is primarily the result of increased sales commissions paid due to changes in product mix, compensation expense related to option grants and higher professional fees incurred relating to entering into a lease for additional space and obtaining VAT registration in certain European countries.

Liquidity and Capital Resources (all $ in 000`s)

The Company`s cash and cash equivalents at July 2, 2011 were $1,260 compared to cash and cash equivalents at December 25, 2010 of $1,803, a decrease of $543 or 30%. Cash declined primarily as a result of increases in inventories and decreases in accrued expenses net of decreases in accounts receivable and increases in accounts payable. Management views this level of fluctuation as within the ordinary course of business.

Accounts receivable decreased to $3,834 at July 2, 2011 from $3,923 at December 25, 2010. This change primarily reflects timing of collections. The accounts receivable balance at July 2, 2011 and December 25, 2010 is net of allowance for doubtful accounts of $5.

Inventories increased to $2,052 at July 2, 2011 from $1,524 at December 25, 2010. Raw materials increased primarily as a result of the need to prepare for supplier factory maintenance shutdowns in the first week of Q3 2011. Work in process inventory increased primarily as a result of management`s decision to build work in process and prepare for the Company`s factory maintenance shutdown the fist week of Q3 2011. Finished goods inventory increased at the Company`s Norton location due to timing of shipments. Of the total finished goods inventory of $1,258 at July 2, 2011, $347 was located at customers` locations pursuant to consigned inventory agreements. Of the total finished goods inventory of $865 at December 25, 2010, $397 was located at customers` locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q2 2011 and the six months ended July 2, 2011 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 2011 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 $1.25 million equipment finance facility with Sovereign Bank through maturity in May 2012. 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 July 02, 2011, the Company was in compliance with these covenants. At July 2, 2011 there were no borrowings under this line of credit.

As of July 2, 2011 production equipment included $228 thousand of construction in progress and the Company had $230 thousand in outstanding commitments to purchase production equipment. The Company intends to finance production equipment with existing cash balances and funds generated by operations or with the Sovereign equipment finance facility.

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.

In February 2011, the Company entered into a one-year lease, with five options to renew for one year periods, for approximately 13,800 square feet of rentable space inside a larger building located at 79 Walton Street, Attleboro, Massachusetts to be used primarily for armor development activities. Monthly rent, which includes utilities, is $6,900.

The Company`s contractual obligations at July 2, 2011 consist of the following:

		Payments Due by Period		
		Remaining in	FY 2012 -	FY 2015 -
	Total	FY 2011	FY 2014	FY 1016
Capital lease obligations	$ 302,490	$121,367	$ 181,123	$ --

including interest				
Purchase commitments for production equipment	$ 230,194	$ 230,194	$ --	$ --
Operating lease obligation for facilities	$727,467	$106,400	$ 433,567	$ 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 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: August 16, 2011
/s/ Grant C. Bennett
Grant C. Bennett
President and Treasurer

(Principal Executive Officer and Principal Financial Officer)