CPS TECHNOLOGIES CORP/DE/
Form 10-Q
August 10, 2015

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 June 27, 2015
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 Jurisdictionof Incorporation or Organization)	(I.R.S. EmployerIdentification No.)
111 South Worcester Street Norton MA (Address of principal executive offices)	02766-2102 (Zip Code)

(508) 222-0614
Registrant’s 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). [X] 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 issuer's classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of July 21, 2015: 13,195,841.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)

	June 27,	December 27,

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,753,269	$2,305,580
Accounts receivable-trade, net	3,840,398	3,589,191
Inventories, net	2,800,912	2,528,954
Prepaid expenses and other current assets	91,537	166,783
Deferred taxes	609,847	682,968
Total current assets	10,095,963	9,273,476
Property and equipment:		
Production equipment	8,267,761	8,085,095
Furniture and office equipment	409,792	404,856
Leasehold improvements	832,410	759,819
Total cost	9,509,963	9,249,770
Accumulated depreciation and amortization	(8,336,032)	(8,047,561)
Construction in progress	465,793	555,334
Net property and equipment	1,639,724	1,757,543
Deferred taxes, non-current portion	1,617,497	1,617,497
Total assets	$13,353,184	$12,648,516

See accompanying notes to financial statements.

(continued)

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(concluded)

LIABILITIES AND STOCKHOLDERS` EQUITY	June 27, 2015	December 27, 2014
Current liabilities:		
Accounts payable	1,806,435	1,352,418
Accrued expenses	920,994	1,049,616
Total current liabilities	2,727,429	2,402,034

Commitments (note 9)		
Stockholders` equity:		
Common stock, $0.01 par value, authorized 20,000,000 and 15,000,000 shares; issued 13,406,292 and 13,293,092 shares; outstanding 13,195,841 and 13,144,489 shares; at June 27, 2015 and December 27, 2014, respectively	134,063	132,931
Additional paid-in capital	35,117,510	34,763,698
Accumulated deficit	(24,127,945)	(24,315,564)
Less cost of 210,451 and 148,603 common shares repurchased at June 27, 2015 and December 27, 2014, respectively	(497,873)	(334,583)
Total stockholders` equity	10,625,755	10,246,482
Total liabilities and stockholders` equity	$13,353,184	$12,648,516

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Operations (Unaudited)

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Revenues:				
Product sales	$5,635,889	$ 5,130,022	$10,883,901	$11,082,102
Research and development under cooperative agreement	—	4,640	42,254	38,611
Total revenues	5,635,889	5,134,662	10,926,155	11,120,713
Cost of product sales	4,336,853	4,072,492	8,456,784	8,491,852
Cost of research and development under cooperative agreement	—	3,834	34,970	32,156
Gross Margin	1,299,036	1,058,336	2,434,401	2,596,705
Selling, general, and administrative expense	1,112,295	1,153,214	2,125,133	2,279,002
Operating income (loss)	186,741	(94,878)	309,268	317,703
Interest income (expense), net	851	(539)	851	(1,501)
Net income (loss) before income tax expense (benefit)	187,652	(95,417)	310,119	316,202
Income tax expense (benefit)	73,760	(38,000)	122,500	126,000

Net income (loss)	$113,832	($57,417)	$187,619	$190,202
Net income (loss) per basic common share	$0.01	$ 0.00	$0.01	$0.01
Weighted average number of basic common shares outstanding	13,178,297	13,084,968	13,162,984	13,077,273
Net income (loss) per diluted common share	$0.01	$ 0.00	$0.01	$0.01
Weighted average number of diluted common shares outstanding	13,627,346	13,084,968	13,679,355	13,705,570

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Six Months Ended	
	June 27, 2015	June 28, 2014
Cash flows from operating activities:		
Net income	$187,619	$190,202
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	288,471	301,817
Share-based compensation	142,074	156,344
Deferred taxes	122,500	126,000
Excess tax benefit from stock options exercised	(49,379)	(19,956)
Changes in:		
Accounts receivable-trade, net	(251,206)	(548,498)
Inventories	(271,958)	(597,893)
Prepaid expenses and other current assets	75,246	67,755
Accounts payable	454,016	350,617
Accrued expenses	(128,622)	(171,235)
Net cash provided by (used in) operating activities	568,762	(144,847)
Cash flows from investing activities:		
Purchases of property and equipment	(170,652)	(264,501)
Net cash used in investing activities	(170,652)	(264,501)

Cash flows from financing activities:		
Payment of capital lease obligations	—	(41,274)
Proceeds from issuance of common stock	163,490	55,947
Excess tax benefit from stock options exercised	49,379	19,956
Repurchase of common stock	(163,290)	(51,741)
Net cash provided by (used in) financing activities	49,579	(17,112)
Net increase (decrease) in cash and cash equivalents	447,689	(426,460)
Cash and cash equivalents at beginning of period	2,305,580	1,571,054
Cash and cash equivalents at end of period	$2,753,269	$1,144,594
Supplemental cash flow information:		
Cash paid for taxes	$15,456	$34,706
Interest paid	$—	$1,501

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Notes to Financial Statements
(Unaudited)

(1) Nature of Business

CPS Technologies Corporation (the “Company” or “CPS”) provides advanced material solutions to the electronics, power generation, 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.

(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, 2014 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, 2014.

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

(3) Net Income Per Common and Common Equivalent Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares plus additional common shares that would have been outstanding if potential dilutive common shares had been issued for granted stock options and stock purchase rights. Common stock equivalents are excluded from the diluted calculations when a net loss is incurred as they would be anti-dilutive.

The following table presents the calculation of both basic and diluted earnings per share ("EPS"):

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Basic EPS Computation:				
Numerator:				
Net income (loss)	$113,832	$(57,417)	$187,619	$190,202
Denominator:				
Weighted average				
Common shares				
Outstanding	13,178,297	13,084,968	13,162,984	13,077,273
Basic EPS	$0.01	$0.00	$0.01	$0.01
Diluted EPS Computation:				
Numerator:				

Net income (loss)	$113,832	$(57,417)	$187,619	$190,202
Denominator:				
Weighted average				
Common shares				
Outstanding	13,178,297	13,084,968	13,162,984	13,077,273
Dilutive effect of stock options	449,049	—	516,371	628,297
Total Shares	13,627,346	13,084,968	13,679,355	13,705,570
Diluted EPS	$0.01	$0.00	$0.01	$0.01

(4) Share-Based Payments

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

There were no stock options granted under the Plan during the quarter ended June 27, 2015 or June 28, 2014.

During the quarters ended June 27, 2015 and June 28, 2014 the Company issued 71,500 and 5,000, respectively, as a result of option exercises. No stock options expired during the quarters ended June 27, 2015 or June 28, 2014.

During the quarter ended June 27, 2015 and June 28, 2014 the Company repurchased 40,678 and 2,550 shares, respectively, from employees to facilitate their exercise of stock options.

During the three and six months ended June 27, 2015, the Company recognized $75,727 and $142,074, respectively, as shared-based compensation expense related to previously granted shares under the Plan. A tax benefit of $27,879 and $49,379 was recognized as additional paid in capital in the three and six months ended June 27, 2015, respectively, resulting from the excess tax benefit of option exercises.

During the three and six months ended June 28, 2014, the Company recognized $83,897 and $156,344, respectively, as shared-based compensation expense related to previously granted shares under the Plan. A tax benefit of $2,670 and $19,956 was recognized as additional paid in capital in the three and six months ended June 28, 2014, resulting from the excess tax benefit of option exercises.

(5) Inventories

Inventories consist of the following:

	June 27, 2015	December 27, 2014
Raw materials	$538,072	$464,243
Work in process	1,397,302	998,209
Finished goods	1,271,039	1,467,002
Total inventory	3,206,413	2,929,454
Reserve for obsolescence	(405,500)	(400,500)
Inventories, net	$2,800,912	$2,528,954

(6) Accrued Expenses

Accrued expenses consist of the following:

	June 27, 2015	December 27, 2014
Accrued legal and accounting	$82,350	$83,307
Accrued payroll	638,277	749,019
Accrued other	184,841	201,956
Accrued income tax	15,526	15,334
	$920,994	$1,049,616

(7) Line of Credit and Equipment Lease Facility Agreements

In early May 2015, the Company renewed its $2 million revolving line of credit ("LOC") and $500 thousand of an equipment finance facility ("Lease Line") with Santander Bank. Both agreements mature in May 2016. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Santander Bank. The LOC and the Lease Line are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the LOC that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At June 27, 2015, the Company was in compliance with all existing covenants. At June 27, 2015, the Company had not utilized the equipment finance facility and therefore had $500 thousand available. At June 27, 2015 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional $2.0 million to have been borrowed.

(8) Income Taxes

At December 27, 2014, the Company had approximately $750,000 of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company has a current and non-current deferred tax asset aggregating $2,227,344 and $2,300,465 on the Company's balance sheet at June 27, 2015 and December 27, 2014, 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.

The Company recorded a tax expense of $57,500 and $95,520 for federal income taxes and a tax expense of $16,260 and $26,980 for state income taxes during the three and six months ended June 27, 2015, respectively. The Company recorded a tax benefit of $30 thousand and a tax expense of $98 thousand for federal income taxes and a tax benefit of $8 thousand and a tax expense of $28 thousand for state income taxes during the three and six months ended June 28, 2014, respectively.

(9) Commitments

The Company entered into a 10-year lease for the Norton facilities effective on March 1, 2006. The leased facilities comprise approximately 38 thousand square feet. In January 2015 this lease was amended to extended the lease to February 28, 2017. In addition in this amendment the Company obtained two, one-year options which, if fully exercised, would enable it to continue to lease through February 28, 2019. 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 $152 thousand at the end of the extended term.

In February 2011, the Company entered into a lease for an additional 13.8 thousand square feet in Attleboro, MA. The lease term is for one year and has an option to extend the lease for five additional one-year periods. Monthly rent, which includes utilities, is $6,900. The Company renewed the lease in 2013 for one additional year and also obtained two years of additional options which could extend the Company use through February 2019. In October 2014, the Company exercised its option to extend the lease through the end of February 2016.

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, 2014.

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, 2014, 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, 2014.

Overview

CPS Technologies Corporation (the 'Company' or 'CPS') 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 Cooperative Agreement was a four-year agreement which was subsequently extended through March 31, 2015.

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.

The Company's 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.

A market at an earlier stage of the adoption lifecycle is the market for hybrid and electric automobiles. The Company recently announced a multi-year supply agreement with a major tier one automotive supplier for the supply of AlSiC pin fin baseplates for use in motor controllers for hybrid and electric automobiles.

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 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, we changed our name from Ceramics Process Systems Corporation to CPS Technologies Corporation.

Results of Operations for the Second Fiscal Quarter of 2015 (Q2 2015) Compared to the Second Fiscal Quarter of 2014 (Q2 2014); (all $ in 000s)

Total revenue was $5,636 in Q2 2015, a 10% increase compared with total revenue of $5,135 in Q2 2014. This increase was due in large part to sales of baseplates and an increase in the sale of hermetic packages, offset in part by price decreases of approximately $400.

Gross margin in Q2 2015 totaled $1,299 or 23% of sales. In Q2 2014, gross margin was $1,058 or 21% of sales. This increase in margin was due to higher sales volume and, to a lesser degree, manufacturing efficiencies, offset in part by price reductions.

Selling, general and administrative expenses (SG&A) were $1,112 in Q2 2015, down 4% compared with SG&A expenses of $ 1,153 in Q2 2014. This decrease was due to a reduction in marketing expenses and, to a lesser degree, lower legal fees, offset in part by fees for listing on NASDAQ and expenses associated with sales activities in China.

Primarily as a result of an increase in sales, the Company generated an operating profit of $187, compared with an operating loss of $95 in the same quarter last year. Net income for Q2 2015 totaled $114 versus a net loss of $57 in Q2 2014.

Results of Operations for the First Six Months of 2015 Compared to the First Six Months of 2014 (all $ in 000s)

Total revenue was $10,926 in the first half of 2015, a 2% decrease compared with total revenue of $11,121 in the first six months of 2014. This decrease was due to price reductions of approximately $600, offset in part by increases in the sale of hermetic packages and, to a lesser degree, higher sales of baseplates.

Gross margin in the first six months of 2015 totaled $2,434 or 22% of sales. In the first six months of 2014 gross margin totaled $2,597 or 23% of sales. This decrease was due to price decreases, offset in part by increases in unit sales and manufacturing efficiencies.

Selling, general and administrative (SG&A) expenses were $2,125 during the first six months of 2015, down 7% compared with SG&A expenses of $2,279 in the first six months of 2014. This decrease was due principally to a reduction in sales and marketing activities, including travel, conference fees and sales commissions.

In the first six months of 2015 the Company earned an operating profit of $310 compared with an operating profit of $318 in the same period last year. Net income for the first six months of 2015 totaled $188 versus net income of $190 in the first six months of 2014.

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.

Liquidity and Capital Resources (all $ in 000s unless noted)

The Company’s cash and cash equivalents at June 27, 2015 totaled $2,753. This compares to cash and cash equivalents at December 27, 2014 of $2,306. The increase in cash was due primarily to an increase in earnings from operations.

Accounts receivable at June 27, 2015 totaled $3.8 million compared with $3.6 million at December 27, 2014. Days Sales Outstanding (DSOs) increased from an unusually low 54 days at the end of 2014 to a more typical 61 days at the end of Q2, 2015. During Q4 of 2014, sales were weighted toward the front end of the quarter resulting in more collections during the quarter and fewer receivables

than normal at quarter end. The accounts receivable balances at December 27, 2014, and June 27, 2015 were both net of an allowance for doubtful accounts of $10.

Inventories totaled $2.8 million at June 27, 2015, compared with inventories of $2.5 million at

December 27, 2014. This increase was due in part to the decision to manufacture baseplates scheduled for delivery in the first part of Q3 2015 before the annual plant shutdown in July. The inventory turnover in 2014 was 7.1 times (based on a 5 point average) and 6.6 times for the most recent four quarters ending Q2 2015.

All consigned inventory is shipped under existing purchase orders and per customers’ requests. Of the inventory of $ 2.8 million at June 27, 2015, $ 1.1 million was located at customers’ locations pursuant to consigned inventory agreements. Of the total inventory of $2.5 million at December 27, 2014, $ 1.0 million was located at customers’ locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q2 2015 with a combination of cash balances and funds generated from operations. The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2015 from a combination of operating cash flow, existing cash balances and borrowings under its line of credit, if necessary.

Contractual Obligations

In early May 2015, the Company renewed its $2 million revolving line of credit (“LOC”) and $500 thousand of an equipment finance facility (“Lease Line”) with Santander Bank. Both agreements mature in May 2016. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime and a one-year term. Under the terms of the agreement, the Company is required to maintain its operating accounts with Santander Bank. The LOC and the Lease Line are cross defaulted and cross collateralized. The Company is also subject to certain financial covenants within the terms of the LOC that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At June 27, 2015, the Company was in compliance with all existing covenants. At June 27, 2015, the Company had not utilized the equipment finance facility and therefore had $500 thousand available. At June 27, 2015 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional $2.0 million to have been borrowed.

The financial covenants with Santander Bank are identical for the LOC and Lease Line. The covenant requirements are shown below together with the actual ratios achieved:

Covenant	Requirement	Actual
Debt Service Coverage Ratio	Minimum of 1.25	37
Current Ratio	Minimum of 1.5X	3.7X
Liabilities to Tangible Net Worth	Maximum of 1.0X	0.3X
Borrowings under the lease line	Maximum of $500K	None
Borrowings under the line of credit*	Maximum of $2M *(based on receivables at 6/27/15)	None

Management believes that cash flows from operations, existing cash balances and the leasing and credit line in place with Santander Bank will be sufficient to fund our cash requirements for the foreseeable future. However, there is no assurance that we will be able to generate sufficient revenues or reduce certain discretionary spending in the event that planned operational goals are not met such that we will be able to meet our obligations as they become due.

As of June 27, 2015 the Company had $466 thousand of construction in progress. 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.

The Company entered into a 10-year lease for the Norton facilities effective on March 1, 2006. The leased facilities comprise approximately 38 thousand square feet. In January 2015 this lease was amended to extend the lease to February 28, 2017. In addition in this amendment the Company obtained two, one-year options which, if fully exercised, would enable it to continue to lease through February 28, 2019. 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 $152 thousand at the end of the extended term.

In February 2011, the Company entered into a lease for an additional 13.8 thousand square feet in Attleboro, MA. The lease term is for one year and has an option to extend the lease for five additional one-year periods. Monthly rent, which includes utilities, is $6,900. The Company renewed the lease in 2013 for one additional year and also obtained two years of additional options which could extend the Company use through February 2019. In October 2014, the Company exercised its option to extend the lease through the end of February 2016.

The Company's contractual obligations at June 27, 2015 consist of the following:

		Payments Due by Period		
		Remaining in	FY 2016 -	
	Total	FY 2015	FY 2017	FY 2018 -
Operating lease obligation for facilities	$302,300	$117,600	$184,700	$—

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 Chief 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 officers have 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 2014 Form 10-K

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

(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 6, 2015 the Company filed a report on Form 8-K of its earnings report for the fiscal first quarter ended March 28, 2015.

On May 6, 2015 the Company filed a report on Form 8-K which included a transcript of the Company's conference call held on May 1, 2015.

SIGNATURES

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

CPS TECHNOLOGIES CORPORATION
(Registrant)

Date: August 10, 2015
/s/ Grant C. Bennett
Grant C. Bennett
Chief Executive Officer

Date: August 10, 2015

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer