

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
May 11, 2016

**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 April 2, 2016

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 CORP.**

(Exact Name of Registrant as Specified in its Charter)

<b>Delaware</b>	<b>04-2832509</b>
<b>(State or Other Jurisdiction</b>	<b>(I.R.S. Employer</b>
<b>of Incorporation or Organization)</b>	<b>Identification No.)</b>

111 South Worcester Street	02766-2102
Norton MA	(Zip Code)

(Address of principal executive offices)

(508) 222-0614

Registrant's Telephone Number, including Area Code:

**CPS TECHNOLOGIES CORP.**

111 South Worcester Street

Norton, MA 02766-2102

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of May 9, 2016: 13,199,118.

**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS (Unaudited)****CPS TECHNOLOGIES CORPORATION****Balance Sheets (Unaudited)**

	April 2, 2016	December 26, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$3,709,660	\$3,412,649
Accounts receivable-trade, net	2,701,446	3,572,479
Inventories, net	2,626,699	2,632,444
Prepaid expenses and other current assets	146,683	104,761
Deferred taxes	437,431	467,374
<b>Total current assets</b>	<b>9,621,919</b>	<b>10,189,707</b>
Property and equipment:		
Production equipment	8,503,402	8,460,727
Furniture and office equipment	410,841	409,793
Leasehold improvements	854,215	854,215
<b>Total cost</b>	<b>9,768,458</b>	<b>9,724,735</b>
Accumulated depreciation and amortization	(8,683,322)	(8,593,236)
Construction in progress	835,140	557,054
<b>Net property and equipment</b>	<b>1,920,276</b>	<b>1,688,553</b>
Deferred taxes, non-current portion	1,633,375	1,683,375
<b>Total Assets</b>	<b>\$13,225,570</b>	<b>\$13,561,635</b>

See accompanying notes to financial statements.

(continued)



**CPS TECHNOLOGIES CORPORATION****Balance Sheets (Unaudited)**

(concluded)

LIABILITIES AND STOCKHOLDERS' EQUITY	April 2, 2016	December 26, 2015
Current liabilities:		
Accounts payable	1,362,108	1,622,564
Accrued expenses	578,674	931,916
Total current liabilities	1,940,782	2,554,480
Commitments (note 9)		
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 20,000,000 shares; issued 13,413,492 and 13,412,292 shares; outstanding 13,199,118 and 13,197,918 shares; at April 02, 2016 and December 26, 2015, respectively	134,135	134,123
Additional paid-in capital	35,325,523	35,245,030
Accumulated deficit	(23,667,817)	(23,864,945)
Less cost of 214,374 common shares repurchased at April 02, 2016 and December 26, 2015	(507,053)	(507,053)
Total stockholders' equity	11,284,788	11,007,155
Total liabilities and stockholders' equity	\$13,225,570	\$13,561,635

See accompanying notes to financial statements.

**CPS TECHNOLOGIES CORPORATION****Statements of Income (Unaudited)**

	Fiscal Quarters Ended	
	April 2, 2016	March 28, 2015
Revenues:		
Product sales	\$5,215,617	\$5,248,012
Research and development under cooperative agreement	—	42,254
Total revenues	5,215,617	5,290,266
Cost of product sales	4,084,060	4,119,931
Cost of research and development under cooperative agreement	—	34,970
Gross Margin	1,131,557	1,135,365
Selling, general, and administrative expense	908,169	1,012,838
Income from operations	223,388	122,527
Other income, net	3,740	—
Income before taxes	227,128	122,527
Income tax provision	30,000	48,740
Net income	\$ 197,128	\$ 73,787
Net income per basic common share	\$0.01	\$0.01
Weighted average number of basic common shares outstanding	13,198,236	13,147,672
Net income per diluted common share	\$0.01	\$0.01
Weighted average number of diluted common shares outstanding	13,503,656	13,731,364

See accompanying notes to financial statements.





**CPS TECHNOLOGIES CORPORATION****Statements of Cash Flows (Unaudited)**

	Fiscal Quarters Ended	
	April 2, 2016	March 28, 2015
Cash flows from operating activities:		
Net income	\$ 197,128	\$ 73,787
Adjustments to reconcile net income to cash provided by (used) in operating activities:		
Depreciation and amortization	135,264	142,030
Share-based compensation	78,612	66,347
Deferred taxes	30,000	48,740
Excess tax benefit from stock options exercised	(57)	(21,500)
Changes in:		
Accounts receivable-trade	871,033	(494,919)
Inventories	5,745	(4,717)
Prepaid expenses and other current assets	(41,922)	(38,611)
Accounts payable	(260,456)	334,510
Accrued expenses	(353,242)	(163,379)
Net cash provided by (used) in operating activities	662,105	(57,712)
Cash flows from investing activities:		
Purchases of property and equipment	(366,987)	(97,595)
Net cash used in investing activities	(366,987)	(97,595)
Cash flows from financing activities:		
Excess tax benefit from stock options exercised	57	21,500
Proceeds from issuance of common stock	1,836	62,216
Repurchase of common stock	—	(62,015)
Net cash provided by financing activities	1,893	21,701
Net change in cash and cash equivalents	297,011	(133,606)
Cash and cash equivalents at beginning of period	3,412,649	2,305,580
Cash and cash equivalents at end of period	\$3,709,660	\$2,171,974
Supplemental cash flow information:		
Cash paid for taxes, net of refunds	\$8,000	\$—

See accompanying notes to financial statements.

## **CPS TECHNOLOGIES CORPORATION**

### **Notes to Financial Statement**

#### **(Unaudited)**

##### (1) Nature of Business

CPS Technologies Corporation (the “Company” or “CPS”) 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 26, 2015 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Registrant’s Annual Report on Form 10-K for the year ended December 26, 2015.

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”):

	For periods ended	
	April 2, 2016	March 28, 2015
Basic EPS Computation:		
Numerator:		
Net income	\$ 197,128	\$ 73,787
Denominator:		
Weighted average common shares		
Outstanding	13,198,236	13,147,672
Basic EPS	\$0.01	\$0.01
Diluted EPS Computation:		
Numerator:		
Net income	\$ 197,128	\$ 73,787
Denominator:		
Weighted average common shares		
Outstanding	13,198,236	13,147,672
Dilutive effect stock options	305,420	583,692
Total Shares	13,503,656	13,731,364
Diluted EPS	\$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.

During the quarters ended April 2, 2016 and March 28, 2015, a total of 129,000 and 123,500 stock options, respectively were granted to employees under the Company's 2009 Stock Incentive Plan (the "Plan") and a total of 45,000 stock options were granted to outside directors, respectively.

During the quarters ended April 2, 2016 and March 28, 2015 the Company issued 1,200 and 41,700 shares, respectively as a result of employee option exercises. During the quarter ended April 2, 2016 there were 40,000 expired stock options and during the quarter ended March 28, 2015 there were no expired stock options.

During the quarter ended April 2, 2016 the Company did not repurchase shares. During the quarter ended March 28, 2015 the Company repurchased 21,170 shares from employees to facilitate their exercise of stock options.

As of April 2, 2016, there was \$428 thousand of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted average period of 2.48 years.

During the quarters ended April 2, 2016 and March 28, 2015, the Company recognized \$79 thousand and \$66 thousand, respectively as shared-based compensation expense related to previously granted shares under the Plan.

#### (5) Inventories

Inventories consist of the following:

	April 2, 2016	December 26, 2015
Raw materials	\$545,292	\$670,318
Work in process	1,255,565	970,598
Finished goods	1,291,342	1,447,028
Gross inventory	3,092,199	3,087,944
Reserve for obsolescence	(465,500)	(455,500)

Inventories, net	\$2,626,699	\$2,632,444
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(6) Accrued Expenses

Accrued expenses consist of the following:

	April 2, 2016	December 26, 2015
Accrued legal and accounting	\$64,000	\$101,000
Accrued payroll and related	422,335	666,846
Accrued other	92,339	191,921
Accrued income taxes	—	2,149
<b>Total Accrued Expenses</b>	<b>\$578,674</b>	<b>\$931,916</b>

The accrued payroll and related at April 2, 2016 and December 26, 2015 includes \$5 thousand and \$140 thousand, respectively for incentive bonuses. December 26, 2015 includes \$120 thousand for 401k company match.

(7) Line of Credit and Equipment Finance Facility Agreements

In April 2016, 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 2017. 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 April 2, 2016, the Company was in compliance with all covenants. At April 2, 2016 the Company had no borrowings under either the LOC or the capital lease line. Further, the Company’s borrowing base at the time would have permitted \$1,536 thousand to have been borrowed under the LOC.

(8) Income Taxes

The Company has a current and non-current deferred tax asset aggregating \$2,120,806 and \$2,150,749 on the Company’s balance sheet at April 2, 2016 and December 26, 2015, 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. During 2015, all remaining net operating loss carryforwards were utilized in full.

The Company recorded a tax expense of \$37 thousand for federal income taxes and a tax benefit of \$7 thousand for state income taxes during the quarter ended April 2, 2016. The Company recorded a tax expense of \$38 thousand for federal taxes and \$11 thousand for state income taxes during the quarter ended March 28, 2015.

#### (9) Commitment

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 2015, the Company exercised its option to extend the lease through the end of February 2017.

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

The following discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the financial statements of the Company and notes thereto included in this report and the Company's Annual Report on Form 10-K for the year ended December 26, 2015.

#### Forward-Looking Statements

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

#### Critical Accounting Policies

The critical accounting policies utilized by the Company in preparation of the accompanying financial statements are set forth in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 26, 2015, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". There have been no material changes to these policies since December 26, 2015.

### 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 expired on 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 Quickset™ Injection Molding Process ('Quickset Process') and the QuickCast™ Pressure Infiltration Process ('QuickCast Process').

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

Results of Operations for the First Fiscal Quarter of 2016 (Q1 2016) Compared to the First Fiscal Quarter of 2015 (Q1 2015); (all \$ in 000's)

Total revenue was \$5,216 in Q1 2016 compared with total revenue of \$5,290 generated in Q1 2015, a reduction of 1%. During Q1 2016, the Company experienced a decrease in the sales of baseplates and lids which was nearly offset by an increase in armor sales and, to a lesser degree, an increase in sales of hermetic packages. There were no significant price changes in Q1 2016 compared with Q1 2015.

Gross margin in Q1 2016 totaled \$1,132 or 22% of sales. This was flat compared with the gross margin in Q1 2015 which totaled \$1,135 or 21% of sales.

Selling, general and administrative (SG&A) expenses totaled \$908 in Q1 2016, down 10% compared with SG&A expenses of \$1,013 in Q1 2015. This decrease was primarily a result of lower costs for incentive compensation, a reduction in the Company's 401K match, payroll tax refunds and lower professional fees and legal expenses. These reductions in costs were offset, in part, by costs associated with selling and marketing products in China.

Primarily as a result of lower SG&A expenses, the Company experienced an increase in operating profit to \$223 and net income to \$137 in Q1 2016 compared with an operating profit of \$123 and net income of \$74 in the same quarter of 2015.

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

The Company's cash and cash equivalents at April 2, 2016 totaled \$3,710. This compares to cash and cash equivalents at December 26, 2015 of \$3,413. The increase in cash was due primarily to a \$871 decrease in receivables and, to a lesser degree, earnings from operations, offset, in part, by a reduction in payables and accruals of \$614 and capital expenditures in excess of depreciation totaling \$232.

Accounts receivable at April 2, 2016 totaled \$2,701 thousand compared with \$3,572 thousand at December 26, 2015. Days Sales Outstanding (DSOs) decreased from 59 days at the end of 2015 to 50 days at the end of Q1 2016. During Q1 of 2016, a greater portion of sales were collected during the quarter, due in part to the 14-week quarter. (The Company operates on a fiscal calendar, typically consisting of four, 13-week quarters. Every fourth year, however, the first quarter has 14 weeks as occurred in 2016.) The accounts receivable balances at December 26, 2015, and April 2, 2016 were both net of an allowance for doubtful accounts of \$10.

Inventories totaled \$2.6 million at April 2, 2016, flat with inventory levels at December 26, 2015. The inventory turnover in the most recent quarters ending Q1 2016 was 6.4 times (based on a 5 point average), down slightly from the 6.5 turnover averaged during the four quarters of 2015.

All consigned inventory is shipped under existing purchase orders and per customers' requests. At April 2, 2016 and December 26, 2015, \$961 thousand and \$763 thousand, respectively, was located at customers' locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q1 2016 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 2016 from a combination of operating cash flow, existing cash balances and borrowings under its line of credit, if necessary.

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 2016, 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 2017. 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 line of credit that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At April 2, 2016, the Company was in compliance with all covenants. At April 2, 2016 the Company had no borrowings under either the LOC or the capital lease line. Further, the Company's borrowing base at the time would have permitted \$1,536 thousand to have been borrowed under the LOC.

The covenants with Santander Bank are identical for the line of credit and equipment financing facility. The covenant requirements are shown below together with the actual ratios achieved:

Covenant	Requirement	<u>Actual</u>
Debt Service Coverage Ratio	Minimum of \$1.25	N/A
Current Ratio	Minimum of 1.5X	4.9
Liabilities to Tangible Net Worth	Maximum of 1.0X	0.2
Borrowings under the lease line	Maximum of \$500K	None
Borrowings under the line of credit	Maximum of \$1,536K	None
	*(based on receivables at 4/2/2016)	

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 April 2, 2016 the Company had \$835 thousand of construction in progress and no outstanding commitments to purchase production equipment. The Company intends to finance production equipment and 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 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. 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 December 2015, the Company exercised its option to extend the lease through the end of February 2017.

The Company's contractual obligations at April 2, 2016, not including unexercised options to extend, consist of the following:

		Payments Due by Period		
		Remaining	FY 2017-	
	Total	in	FY 2016	FY 2018
				FY 2019
Operating lease obligation for facilities	\$520,400	\$176,400	\$318,600	\$25,400

### **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 2015 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 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 February 26, 2016 the Company filed a report on Form 8-K relating to the announcement of its financial results for the year ended December 26, 2015 as presented in a press release dated February 24, 2016.

## **SIGNATURES**

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

### **CPS TECHNOLOGIES CORPORATION**

(Registrant)

Date: May 11, 2016

/s/ Grant C. Bennett

Grant C. Bennett

Chief Executive Officer

Date: May 11, 2016

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer

