

CPS TECHNOLOGIES CORP/DE/  
Form 10-Q  
August 09, 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 July 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 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	<u>02766-2102</u>
<u>Norton MA</u>	(Zip Code)
(Address of principal executive offices)	

(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.  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

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 August 3, 2016: 13,203,436.

**PART I FINANCIAL INFORMATION**

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

	July 2, 2016	December 26, 2015
Current assets:		
Cash and cash equivalents	\$3,574,227	\$3,412,649
Accounts receivable-trade, net	2,499,056	3,572,479
Inventories, net	2,414,875	2,632,444
Prepaid expenses and other current assets	134,641	104,761
Deferred taxes	510,288	467,374
Total current assets	9,133,087	10,189,707
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
Total cost	9,768,458	9,724,735
Accumulated depreciation and amortization	(8,819,418)	(8,593,236)
Construction in progress	925,280	557,054
Net property and equipment	1,874,320	1,688,553
Deferred taxes, non-current portion	1,683,375	1,683,375
Total assets	\$12,690,782	\$13,561,635

See accompanying notes to financial statements.

(continued)

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

(concluded)

LIABILITIES AND STOCKHOLDERS` EQUITY	July 2, 2016	December 26, 2015
Current liabilities:		
Accounts payable	913,644	1,622,564
Accrued expenses	710,859	931,916
Total current liabilities	1,624,503	2,554,480
Commitments (note 9)		
Stockholders` equity:		
Common stock, \$0.01 par value, authorized 20,000,000 shares; issued 13,423,492 and 13,412,292 shares; outstanding 13,203,436 and 13,197,918 shares; at July 2, 2016 and December 26, 2015, respectively	134,235	134,123
Additional paid-in capital	35,375,652	35,245,030
Accumulated deficit	(23,926,555)	(23,864,945)
Less cost of 220,056 and 214,374 common shares repurchased at July 2, 2016 and December 26, 2015, respectively	(517,053)	(507,053)
Total stockholders` equity	11,066,279	11,007,155
Total liabilities and stockholders` equity	\$12,690,782	\$13,561,635

See accompanying notes to financial statements.

## CPS TECHNOLOGIES CORPORATION

### Statements of Operations (Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Revenues:				
Product sales	\$3,934,995	\$5,635,889	\$9,150,612	\$10,883,901
Research and development under cooperative agreement	—	—	—	42,254
Total revenues	3,934,995	5,635,889	9,150,612	10,926,155
Cost of product sales	3,374,078	4,336,853	7,458,138	8,456,784
Cost of research and development				

under cooperative agreement	—	—	—	34,970
Gross Margin	560,917	1,299,036	1,692,474	2,434,401
Selling, general, and administrative expense	892,477	1,112,295	1,800,646	2,125,133
Operating income (loss)	(331,560)	186,741	(108,172)	309,268
Interest income (expense), net	2,722	851	6,462	851
Net income (loss) before income tax expense (benefit)	(328,838)	187,592	(101,710)	310,119
Income tax expense (benefit)	(70,100)	73,760	(40,100)	122,500
Net income (loss)	\$(258,738)	\$113,832	\$(61,610)	\$187,619
Net income (loss) per basic common share	\$(0.02)	\$0.01	\$(0.00)	\$0.01
Weighted average number of basic common shares outstanding	13,200,269	13,178,297	13,199,210	13,162,984
Net income (loss) per diluted common share	\$(0.02)	\$0.01	\$(0.00)	\$0.01
Weighted average number of diluted common shares outstanding	13,200,269	13,627,346	13,199,210	13,679,355

See accompanying notes to financial statements.

## CPS TECHNOLOGIES CORPORATION

### Statements of Cash Flows (Unaudited)

	Six Months Ended	
	July 2, 2016	June 27, 2015
Cash flows from operating activities:		
Net income (loss)	\$(61,610)	\$187,619
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	271,360	288,471
Share-based compensation	116,085	142,074
Deferred taxes	(40,100)	122,500
Excess tax benefit from stock options exercised	(2,814)	(49,379)

Changes in:		
Accounts receivable-trade, net	1,073,423	(251,206)
Inventories	217,569	(271,958)
Prepaid expenses and other current assets	(29,880)	75,246
Accounts payable	(708,920)	454,016
Accrued expenses	(221,057)	(128,622)
Net cash provided by operating activities	614,054	568,762
Cash flows from investing activities:		
Purchases of property and equipment	(457,127)	(170,652)
Net cash used in investing activities	(457,127)	(170,652)
Cash flows from financing activities:		
Proceeds from issuance of common stock	11,835	163,490
Excess tax benefit from stock options exercised	2,814	49,379
Repurchase of common stock	(10,000)	(163,290)
Net cash provided by financing activities	4,649	49,579
Net increase in cash and cash equivalents	161,578	447,689
Cash and cash equivalents at beginning of period	3,412,649	2,305,580
Cash and cash equivalents at end of period	\$3,574,227	\$2,753,269
Supplemental cash flow information:		
Cash paid for taxes	\$8,000	\$15,456

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 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"):

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	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Basic EPS Computation:				
Numerator:				
Net income (loss)	\$(258,738)	\$113,832	\$(61,610)	\$187,619
Denominator:				
Weighted average				
Common shares				
Outstanding	13,200,269	13,178,297	13,199,210	13,162,984
Basic EPS	\$(0.02)	\$0.01	\$(0.00)	\$0.01
Diluted EPS Computation:				
Numerator:				
Net income (loss)	\$(258,738)	\$113,832	\$(61,610)	\$187,619
Denominator:				
Weighted average				
Common shares				
Outstanding	13,200,269	13,178,297	13,199,210	13,162,984
Dilutive effect of stock options	—	449,049	—	516,371
Total Shares	13,200,269	13,627,346	13,199,210	13,679,355
Diluted EPS	\$(0.02)	\$0.01	\$(0.00)	\$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 July 2, 2016 or June 27, 2015.

During the quarters ended July 2, 2016 and June 27, 2015 the Company issued 10,000 and 71,500 shares, respectively, as a result of option exercises. No stock options expired during the quarters ended July 2, 2016 or June 27, 2015.

During the quarter ended July 2, 2016 and June 27, 2015 the Company repurchased 5,682 and 40,678 shares, respectively, from employees to facilitate their exercise of stock options.

During the three and six months ended July 2, 2016, the Company recognized \$37,473 and \$116,085, respectively, as shared-based compensation expense related to previously granted shares under the Plan. A tax benefit of \$2,757 and \$2,814 was recognized as additional paid in capital in the three and six months ended July 2, 2016, respectively, resulting from the excess tax benefit of option exercises.



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.

#### (5) Inventories

Inventories consist of the following:

	July 2, 2016	December 26, 2015
Raw materials	\$603,507	\$670,318
Work in process	1,316,888	970,598
Finished goods	959,980	1,447,028
Total inventory	2,880,375	3,087,944
Reserve for obsolescence	(465,500)	(455,500)
Inventories, net	\$2,414,875	\$2,632,444

#### (6) Accrued Expenses

Accrued expenses consist of the following:

	July 2, 2016	December 26, 2015
Accrued legal and accounting	\$65,324	\$101,000
Accrued payroll	504,834	666,846
Accrued other	140,701	164,070
	\$710,859	\$931,916

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

In early May 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 July 2, 2016, the Company was in compliance with all existing covenants. At July 2, 2016, the Company had not utilized the equipment finance facility and therefore had \$500 thousand available. Also, at July 2, 2016 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional \$1.2 million to have been borrowed.

(8) Income Taxes

The Company has a current and non-current deferred tax asset aggregating \$2,193,663 and \$2,150,749 on the Company's balance sheet at July 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 benefit of \$68 thousand and \$31 thousand for federal income taxes and a tax benefit of \$2 thousand and \$9 thousand for state income taxes during the three and six months ended July 2, 2016, respectively.

The Company recorded a tax expense of \$58 thousand and \$95 thousand for federal income taxes and a tax expense of \$16 thousand and \$27 thousand for state income taxes during the three and six months ended June 27, 2015, 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 2016 this lease was amended to extend the lease to February 28, 2017. As part of the agreement the Company obtained two, one-year options which enabled it to continue to lease through February 28, 2019. In June 2016 the Company exercised the option to extend the lease through February 28, 2018. 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   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 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. In 2012 the Company 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 Second Fiscal Quarter of 2016 (Q2 2016) Compared to the Second Fiscal Quarter of 2015 (Q2 2015); (all \$ in 000s)

Total revenue was \$3,935 in Q2, 2016, a 30% decrease compared with total revenue of \$5,636 in Q2, 2015. This decrease was due in large part to a decline in the sales of baseplates and, to a lesser degree, a reduction in revenues from hermetic packages and lids. There were no significant price changes in Q2, 2016 compared with Q2, 2015.

Gross margin in Q2 2016 totaled \$561 or 14% of sales. In Q2 2015, gross margin was \$1,299 or 23% of sales. This decrease in margin was primarily due to lower sales volume offset, in part, by manufacturing efficiencies.

Selling, general and administrative expenses (SG&A) were \$892 in Q2, 2016, down 20% compared with SG&A expenses of \$ 1,112 in Q2, 2015. This decrease was a result of lower costs for incentive compensation, a reduction in commission expense related to volume, the absence of a 401K match and lower legal expenses. These reductions in costs were offset, in part, by an increase in expenses associated with selling and marketing products in China.

Primarily as a result of the decline in sales volume, the Company experienced an operating loss of \$332 compared with an operating profit of \$187 in the same quarter last year. The net loss for Q2, 2016 totaled \$259 versus net income of \$114 in Q2, 2015. In both cases the drop in sales volume, offset in part by lower SG&A expenses was the primary reason for the variance.

Results of Operations for the First Six Months of 2016 Compared to the First Six Months of 2015 (all \$ in 000s)

Total revenue was \$9,151 in the first half of 2016, a 16% decrease compared with total revenue of \$10,926 in the first six months of 2015. This decrease was primarily due to a decline in the sale of baseplates and, to a lesser degree, a drop in lid sales; these reductions were offset in part by an increase in armor sales. There were no significant price changes during the first half of 2016 compared with the first half of 2015.

Gross margin in the first six months of 2016 totaled \$1,692 or 18% of sales. In the first six months of 2015 gross margin totaled \$2,434 or 22% of sales. This decrease was due primarily to the reduction in revenues.

Selling, general and administrative (SG&A) expenses were \$1,801 during the first six months of 2016, down 15% compared with SG&A expenses of \$2,125 in the first six months of 2015. This decrease was due to lower levels of incentive compensation, a reduction in commission expense related to volume, the absence of a 401K match and lower legal expenses and professional fees. These reductions in costs were offset, in part, by an increase in expenses associated with selling and marketing products in China.

In the first six months of 2016 the Company incurred an operating loss of \$108 compared with an operating profit of \$309 in the same period last year. The net loss for the first six months of 2016 totaled \$62 versus net income of \$188 in the first six months of 2015. In both cases, as cited earlier, the drop in sales volume, offset in part by lower SG&A expenses was the primary reason for the variance.

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 July 2, 2016 totaled \$3,574. This compares to cash and cash equivalents at December 26, 2015 of \$3,413. The increase in cash was due primarily to reduction in working capital offset, in part, by capital expenditures in excess of depreciation.

Accounts receivable at July 2, 2016 totaled \$2.5 million compared with \$3.6 million at December 26, 2015. Days Sales Outstanding (DSOs) decreased slightly from 59 days at the end of 2015 to 57 days at the end of Q2, 2016. The accounts receivable balances at December 26, 2015, and July 2, 2016 were both net of an allowance for doubtful accounts of \$10.

Inventories totaled \$2.4 million at July 2, 2016, compared with inventories of \$2.6 million at December 26, 2015. This decline was due to a slowdown in sales leading to a reduction in manufacturing activity. The inventory turnover in 2015 was 6.5 times (based on a 5 point average) and 6.1 times for the most recent four quarters ending Q2, 2016.

All consigned inventory is shipped under existing purchase orders and per customers' requests. Of the inventory of \$2.4 million at July 2, 2016, \$881 thousand was located at customers' locations pursuant to consigned inventory agreements. Of the total inventory of \$2.6 million at December 26, 2015, \$763 thousand was located at customers'

locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q2, 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.

### Contractual Obligations

In early May 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 July 2, 2016, the Company was in compliance with all existing covenants. At July 2, 2016, the Company had not utilized the equipment finance facility and therefore had \$500 thousand available. Also, at July 2, 2016 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional \$1.2 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:

<u>Covenant</u>	<u>Requirement</u>	<u>Actual</u>
Debt Service Coverage Ratio	Minimum of 1.25	N/A (no leases)
Current Ratio	Minimum of 1.5X	5.6X
Liabilities to Tangible Net Worth	Maximum of 1.0X	0.1X
Borrowings under the lease line	Maximum of \$500K	None
Borrowings under the line of credit*	Maximum of \$1.2M	None
	*(based on receivables at 7/2/16)	

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 July 2, 2016 the Company had \$925 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 2016 this lease was amended to extend the lease to February 28, 2017. As part of the agreement the Company obtained two, one-year options which enabled it to continue to lease through February 28, 2019. In June 2016 the Company exercised the option to extend the lease through February 28, 2018. 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.

The Company's contractual obligations at July 2, 2016 consist of the following:

		Payments Due by Period		
		Remaining in FY 2017 -		
	Total	FY 2016	FY 2018	FY 2019-
Operating lease obligation for facilities	\$461,600	\$117,600	\$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 May 9, 2016 the Company filed a report on Form 8-K of its earnings report for the fiscal first quarter ended April 2, 2016.

On May 4, 2016 the Company filed a report on Form 8-K which included final tabulation of votes from the Company's Annual Meeting of Shareholders held on April 29, 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: August 9, 2016

/s/ Grant C. Bennett

Grant C. Bennett

Chief Executive Officer

Date: August 9, 2016

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer