CPS TECHNOLOGIES CORP/DE/
Form 10-Q
May 11, 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 March 28, 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 (State or Other Jurisdiction of Incorporation or Organization)	04-2832509 (I.R.S. Employer Identification 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 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 [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 April 23, 2015: 13,165,019.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)

	March 28, 2015	December 27, 2014
ASSETS		

Current assets:		
Cash and cash equivalents	$2,171,974	$2,305,580
Accounts receivable-trade, net	4,084,110	3,589,191
Inventories, net	2,533,671	2,528,954
Prepaid expenses and other current assets	205,394	166,783
Deferred taxes	666,448	682,968
Total current assets	9,661,597	9,273,476
Property and equipment:		
Production equipment	8,179,447	8,085,095
Furniture and office equipment	404,856	404,856
Leasehold improvements	832,410	759,819
Total cost	9,416,713	9,249,770
Accumulated depreciation and amortization	(8,189,591)	(8,047,561)
Construction in progress	485,986	555,334
Net property and equipment	1,713,108	1,757,543
Deferred taxes, non-current portion	1,606,777	1,617,497
Total Assets	$12,981,482	$12,648,516

See accompanying notes to financial statements.

(continued)

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(concluded)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 28, 2015	December 27, 2014
Current liabilities:		
Accounts payable	1,686,928	1,352,418
Accrued expenses	886,237	1,049,616
Total current liabilities	2,573,165	2,402,034

Commitments (note 9)		
Stockholders' equity:		
Common stock, $0.01 par value, authorized 20,000,000 and 15,000,000 shares; issued 13,334,792 and 13,293,092 shares; outstanding 13,165,019 and 13,144,489 shares; at March 28, 2015 and December 27, 2014, respectively	133,348	132,931
Additional paid-in capital	34,913,344	34,763,698
Accumulated deficit	(24,241,777)	(24,315,564)
Less cost of 169,773 and 148,603 common shares repurchased at March 28, 2015 and December 27, 2014, respectively	(396,598)	(334,583)
Total stockholders' equity	10,408,317	10,246,482
Total liabilities and stockholders' equity	$12,981,482	$12,648,516

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Income (Unaudited)

	Fiscal Quarter Ended	
	March 28, 2015	March 29, 2014
Revenues:		
Product sales	$5,248,012	$5,952,080
Research and development under cooperative agreement	42,254	33,971
Total revenues	5,290,266	5,986,051
Cost of product sales	4,119,931	4,419,360
Cost of research and development under cooperative agreement	34,970	28,322
Gross Margin	1,135,365	1,538,369
Selling, general, and administrative expense	1,012,838	1,125,788
Income from operations	122,527	412,581
Interest expense, net	—	(962)
Income before taxes	122,527	411,619
Income tax provision	48,740	164,000
Net income	$73,787	$247,619
Net income per basic common share	$0.01	$0.02
Weighted average number of basic common shares outstanding	13,147,672	13,069,577
Net income per		

diluted common share	$0.01	$0.02
Weighted average number of diluted common shares outstanding	13,731,364	13,696,583

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Fiscal Quarter Ended	
	March 28, 2015	March 29, 2014
Cash flows from operating activities:		
Net income	$73,787	$247,619
Adjustments to reconcile net income to cash provided by (used) in operating activities:		
Depreciation and amortization	142,030	150,547
Share-based compensation	66,347	72,448
Deferred taxes	48,740	164,000
Excess tax benefit from stock options exercised	(21,500)	(17,286)
Changes in:		
Accounts receivable-trade	(494,919)	(1,589,931)
Inventories	(4,717)	(25,283)
Prepaid expenses and other current assets	(38,611)	19,665
Accounts payable	334,510	410,324
Accrued expenses	(163,379)	(40,600)
Net cash used in operating activities	(57,712)	(608,497)
Cash flows from investing activities:		
Purchases of property and equipment	(97,595)	(106,806)
Net cash used in investing activities	(97,595)	(106,806)
Cash flows from financing activities:		
Payment of capital lease obligations	—	(20,524)
Excess tax benefit from stock options exercised	21,500	17,286
Proceeds from issuance of common stock	62,216	48,297
Repurchase of common stock	(62,015)	(44,091)
Net cash provided by financing activities	21,701	968
Net decrease in cash and cash equivalents	(133,606)	(714,335)
Cash and cash equivalents at beginning of period	2,305,580	1,571,054

Cash and cash equivalents at end of period	$2,171,974	$856,719
Supplemental cash flow information:		
Cash paid for taxes, net of refunds	$—	$27,456
Interest paid	$—	$962

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 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"):

	For periods ended March 28, 2015	March 29, 2014
Basic EPS Computation:		
Numerator:		
Net income	$73,787	$247,619
Denominator:		
Weighted average common shares Outstanding	13,147,672	13,069,577
Basic EPS	$0.01	$0.02
Diluted EPS Computation:		
Numerator:		
Net income	$73,787	$247,619
Denominator:		
Weighted average common shares Outstanding	13,147,672	13,069,577
stock options	583,692	627,006
Total Shares	13,731,364	13,696,583
Diluted EPS	$0.01	$0.02

(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 March 28, 2015 and March 29, 2014, a total of 123,500 and 108,500 stock options, respectively were granted to employees under the Company's 2009 Stock Incentive Plan (the "Plan) and a total of 45,000 and 30,000 stock options were granted to outside directors, respectively.

During the quarters ended March 28, 2015 and March 29, 2014 the Company issued 41,700 and 32,900 shares, respectively as a result of employee option exercises. During the quarters ended March 28, 2015 and March 29, 2014 there were no expired stock options.

During the quarters ended March 28, 2015 and March 29, 2014 the Company repurchased 21,170 and 14,964 shares, respectively from employees to facilitate their exercise of stock options.

As of March 28, 2015, there was $623 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 2.88 years.

During the quarters ended March 28, 2015 and March 29, 2014, the Company recognized $66,347 and $72,448, respectively as shared-based compensation expense related to previously granted shares under the Plan.

(5) Inventories

Inventories consist of the following:

	March 28, 2015	December 27, 2014
Raw materials	$575,444	$464,243
Work in process	1,141,234	998,209
Finished goods	1,217,493	1,467,002
Gross inventory	2,934,171	2,929,454
Reserve for obsolescence	(400,500)	(400,500)

Inventories, net	$2,533,671	$2,528,954

(6) Accrued Expenses

Accrued expenses consist of the following:

	March 28, 2015	December 27, 2014
Accrued legal and accounting	$69,807	$83,307
Accrued payroll and related	580,055	749,019
Accrued other	220,849	201,956
Accrued income taxes	15,526	15,334
Total accrued expenses	$886,237	$1,049,616

The accrued payroll and related at March 28, 2015 and December 27, 2014 includes $35 thousand and $110 thousand, respectively for 401k company match and $55 thousand and $313 thousand, respectively for incentive bonuses.

(7) Line of Credit and Equipment Lease Facility Agreements

In early May 2014, 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 2015. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus one half of percent (.05%) and a one-year term. 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 debt to equity and current ratio. At March 28, 2015, the Company was in compliance with existing covenants.

At March 28, 2015, the Company had no borrowing under its Lease Line. In addition at March 28, 2015 the Company had no borrowings under the LOC while its borrowing base at the time would have permitted borrowings up to the full $2 million of the LOC.

(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 recorded a tax expense of $38,020 for federal income taxes and $10,720 for state income taxes during the quarter ended March 28, 2015.

The Company has a current and non-current deferred tax asset aggregating $2,273,225 and $2,300,465 on the Company’s balance sheet at March 28, 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.

(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 2014, the Company exercised its option to extend the lease through the end of February 2016.

(10) Subsequent Events

In April 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.

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 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 First Fiscal Quarter of 2015 (Q1 2015) Compared to the First Fiscal Quarter of 2014 (Q1 2014); (all $ in 000’s)

Total revenue was $5,290 in Q1 2015, a 12% decrease compared with total revenue of $5,986 generated in Q1 2014. This decrease was due in large part to the sales of baseplates for traction products and, to a lesser degree, the sales of dissolvable ball sealers used in fracking oil and gas wells.

Gross margin in Q1 2015 totaled $1,135 or 21% of sales. In Q1 2014, gross margin totaled $1,538, 26% of sales. This reduction in the gross margin percentage was due largely to the decrease in sales volume and to price decreases of approximately $ 200, offset in part by manufacturing efficiencies.

Selling, general and administrative (SG&A) expenses were $1,013 in Q1 2015, down 10% compared with SG&A expenses of $1,126 in Q1 2014. This decrease was primarily due to a reduction in sales and marketing activities, including commissions, travel, and conference fees.

Primarily as a result of lower revenues, the Company experienced a decline in operating profit to $123 and net income to $74 in Q1 2015 compared with an operating profit of $413 and net income of $248 in the same quarter of 2014.

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

The Company’s cash and cash equivalents at March 28, 2015 totaled $2,172. This compares to cash and cash equivalents at December 27, 2014 of $2,306. The decrease in cash was due primarily to a $495 increase in receivables due to the fact that an unusually high portion of sales during Q4, 2014 were collected during the fourth quarter of that year. This reduction is cash was offset in part by earnings from operations of $123 plus non-cash expenses and an increase in payables and accruals of $171.

Accounts receivable at March 28, 2015 totaled $4.1 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 69 days at the end of Q1 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 March 28, 2015 were both net of an allowance for doubtful accounts of $10.

Inventories totaled $2.5 million at March 28. 2015, flat with inventory levels at December 27,

2014. The inventory turnover in 2014 was 7.1 times (based on a 5 point average) and decreased to 6.8 times for the most recent four quarters ending Q1 2015.

All consigned inventory is shipped under existing purchase orders and per customers' requests. Of the inventory of $2.5 million at March 28, 2015, $754 thousand 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 Q1 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.

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 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 line of credit that require the Company to maintain a targeted coverage ratio as well as targeted debt to equity and current ratios. At March 28, 2015, the Company was in compliance with all covenants. At March 28, 2015 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 $2.0 million 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	Actual
Debt Service Coverage Ratio	Minimum of $1.25	16
Current Ratio	Minimum of 1.5X	3.5

Liabilities to Tangible Net Worth	Maximum of 1.0X	0.3
Borrowings under the lease line	Maximum of $500K	None
Borrowings under the line of credit	Maximum of $2.000K *(based on receivables at 3/28/2015)	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 March 28, 2015 the Company had $486 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 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.

The Company's contractual obligations at March 28, 2015, not including unexercised options to extend, consist of the following:

		Payments Due by Period		
	Total	Remaining in FY 2015	FY 2016 - FY 2017	FY 2018 -
Operating lease obligation for facilities	$361,100	$ 176,400	$ 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 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 March 5, 2015 the Company filed a report on Form 8-K relating to the announcement of its financial results for the year ended December 27, 2014 as presented in a press release dated March 3, 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: May 11, 2015
/s/ Grant C. Bennett
Grant C. Bennett
Chief Executive Officer

Date: May 11, 2015

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer