CPS TECHNOLOGIES CORP/DE/
Form 10-Q
November 06, 2014

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 September 24, 2014
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
Registrants Telephone Number, including Area Code:

CPS Technologies Corporation

111 South Worcester Street

Norton, MA 02766-2102

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of common stock outstanding as of October 22, 2014: 13,142,161.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

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

	September 27, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,055,947	$ 1,571,054
Accounts receivable-trade, net	4,590,646	2,900,457
Inventories, net	2,639,636	2,183,699
Prepaid expenses and other current assets	190,519	175,726
Deferred taxes	456,747	649,420
Total current assets	8,933,495	7,480,356
Property and equipment:		
Production equipment	7,806,184	7,728,408
Furniture and office equipment	404,856	383,990
Leasehold improvements	759,819	759,819
Total cost	8,970,859	8,872,217
Accumulated depreciation and amortization	(7,895,816)	(7,470,815)
Construction in progress	702,987	431,385
Net property and equipment	1,778,030	1,832,787
Deferred taxes, non-current portion	1,797,811	1,826,482
Total assets	$ 12,509,336	$ 11,139,625

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(concluded)

	September 27 , 2014	December 28, 2013
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	1,767,884	1,091,909
Accrued expenses	1,201,824	1,106,813
Current portion of obligations under capital leases	14,116	76,372
Total current liabilities	2,983,824	2,275,094
Total liabilities	2,983,824	2,275,094
Commitments (note 9)		
Stockholders’ equity:		
Common stock, $0.01 par value, authorized 20,000,000 and 15,000,000 shares; issued 13,231,342 and 13,178,042 shares; outstanding 13,098,919 and 13,066,641 shares; at September 27, 2014 and December 28, 2013, respectively	132,313	131,781
Additional paid-in capital	34,616,430	34,278,757
Accumulated deficit	(24,934,065)	(25,318,332)
Less cost of 132,423 and 111,401 common shares repurchased at September 27, 2014 and December 28, 2013, respectively	(289,166)	(227,675)
Total stockholders’ equity	9,525,512	8,864,531
Total liabilities and stockholders’ equity	$ 12,509,336	$ 11,139,625

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Income (Unaudited)

	Fiscal Quarters Ended		Nine month Periods Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Revenues:				
Product sales	$5,984,623	$5,918,725	$17,066,725	$16,072,889
Research and development under cooperative agreement	85,607	55,764	124,218	233,220
Total Revenues	6,070,230	5,974,489	17,190,943	16,306,109
Cost of product sales	4,658,194	4,209,683	13,150,046	12,116,150
Cost of research and development under cooperative agreement	72,861	46,654	105,017	194,072
Gross Margin	1,339,175	1,718,152	3,935,880	3,995,887
Selling, general and administrative expense	1,017,811	1,059,033	3,296,813	2,967,066
Operating income	321,364	659,119	639,067	1,028,821
Interest (expense), net	(299)	(3,603)	(1,800)	(26,473)
Net income before income tax expense	321,065	655,516	637,267	1,002,348
Income tax expense	127,000	204,000	253,000	311,720
Net income	$194,065	$451,516	$384,267	$690,628
Net income per basic common share	$0.01	$0.03	$0.03	$0.05
Weighted average number of basic common shares outstanding	13,091,819	13,198,506	13,082,135	13,010,591
Net income per diluted common share	$0.01	$0.03	$0.03	$0.05
Weighted average number of diluted common shares outstanding	13,737,953	13,522,495	13,716,378	13,242,069

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Nine Month Periods Ended	
	September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net income	$384,267	$690,628
Adjustments to reconcile net income to cash provided by (used in) operating activities		
Depreciation & amortization	425,001	451,663
Share-based compensation	240,240	182,150
Deferred taxes	253,000	311,720
Excess tax benefit from stock options exercised	(31,656)	(117,273)
Changes in:		
Accounts receivable-trade, net	(1,690,189)	(1,346,946)
Inventories	(455,937)	408,455
Prepaid expenses	(14,793)	(32,645)
Accounts payable	675,975	358,284
Accrued expenses	95,011	222,650
Net cash provided by (used in) operating activities	(119,081)	1,128,686
Cash flows from investing activities:		
Purchases of property and equipment	(370,244)	(517,148)
Net cash used in investing activities	(370,244)	(517,148)
Cash flows from financing activities:		
Payment of capital lease obligations	(62,256)	(103,066)
Proceeds from equipment lease line	—	163,155
Proceeds (repayments) of line of credit, net	—	(500,000)
Proceeds from issuance of common stock	66,309	73,469
Excess tax benefit from stock options exercised	31,656	117,273
Repurchase of common stock	(61,491)	(73,470)
Net cash used in financing activities	(25,782)	(322,639)
Net increase (decrease) in cash and cash equivalents	(515,107)	288,899
Cash and cash equivalents at beginning of period	1,571,054	306,854
Cash and cash equivalents at end of period	$1,055,947	$595,753
Supplemental cash flow information:		
Cash paid for taxes, net of refunds	$34,706	$—

Interest paid	$1,811	$26,473

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 28, 2013 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 28, 2013.

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 EPS:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Basic EPS Computation:				
Numerator:				
Net income	$194,065	$451,516	$384,267	$690,628
Denominator:				
Weighted average Common shares Outstanding	13,091,819	13,198,506	13,082,135	13,010,591
Basic EPS	$0.01	$0.03	$0.03	$0.05
Diluted EPS Computation:				
Numerator:				
Net income	$194,065	$451,516	$384,267	$690,628
Denominator:				
Weighted average Common shares Outstanding	13,091,819	13,198,506	13,082,135	13,010,591
Dilutive effect of stock options	646,134	323,989	634,243	231,478
Total Shares	13,737,953	13,522,495	13,716,378	13,242,069
Diluted EPS	$0.01	$0.03	$0.03	$0.05

(4) Share-Based Payments

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

There were no stock options granted under the Company's 2009 Stock Incentive Plan (the "Plan") during the quarters ended September 27, 2014 and September 28, 2013. During the three and nine months ended September 27, 2014 the Company recognized $84 thousand and $240 thousand, respectively as share-based compensation expense related to previously granted shares under the Plan. A tax benefit of $12 thousand and $32 thousand was recognized as additional paid in capital in the three and nine months ended September 27, 2014, respectively resulting from the excess tax benefit of option exercises.

During the three and nine months ended September 28, 2013 the Company recognized $66 thousand and $182 thousand, respectively, as share-based compensation expense related to previously granted shares under the Plan.

During the quarter ended September 27, 2014 the Company issued 15 thousand shares of common stock as a result of option exercises. There were no stock option exercises during the quarter ended September 28, 2013. No options expired during the quarters ended September 27, 2014 and September 28, 2013.

During the quarter ended September 27, 2014 the Company repurchased 4 thousand shares for $10 thousand from employees to facilitate their exercise of stock options.

(5) Inventories

Inventories consist of the following:

	September 27, 2014	December 28, 2013
Raw materials	$497,083	$359,535
Work in process	1,381,314	1,135,413
Finished goods	1,161,739	1,079,251
Total inventory	3,040,136	2,574,199
Reserve for obsolescence	(400,500)	(390,500)
Inventories, net	$2,639,636	$2,183,699

(6) Accrued Expenses

Accrued expenses consist of the following:

	September 27, 2014	December 28, 2013
Accrued legal and accounting	$77,848	$92,000
Accrued payroll	852,402	823,196
Accrued other	273,235	158,116

Accrued income tax	(1,661)	33,501
	$1,201,824	$1,106,813

The accrued payroll at September 27, 2014 includes $150 thousand for 401k company match and $175 thousand for incentive bonuses. These items totaled $200 thousand $305 thousand respectively on December 28, 2013.

(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 (3.25% at September 27, 2014) plus one half of one percent (0.5%) 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 September 27, 2014, the Company was in compliance with all existing covenants.

At September 27, 2014, the Company had $14 thousand net carrying value of capital equipment financed by advances and capital lease obligations under the Lease Line and $486 thousand available remaining. Equipment financed by the Santander equipment lease qualifies for treatment as a capital lease once converted from the Lease Line to a lease.

At September 27, 2014 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional $2.0 million to have been borrowed.

(8) Income Taxes

At December 28, 2013, the Company had approximately $1.71 million of net operating loss carryforwards available to offset future income for U.S. Federal income tax purpose.

The Company has a current and non-current deferred tax asset aggregating $2,255 thousand and $2,476 thousand on the Company's balance sheet at September 27, 2014 and December 28, 2013, 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) Commitments

In July 2006, the Company entered into a lease for its current operating facilities of approximately 37,520 square feet of rentable space located on approximately seven acres at its current site in Norton, MA. The term of the lease is ten years. The lease is a triple net lease wherein the Company is responsible for payment of all real estate taxes, operating costs and utilities. The Company also has an option to buy the property and a first right of refusal during the term of the lease. Annual rental payments are $100,000 in year one increasing to $150,000 in year ten.

In February 2011, the Company entered into a one-year lease, with five options to renew for one year periods, for approximately 13,800 square feet of rentable space inside a larger building located at 79 Walton Street, Attleboro, Massachusetts. Monthly rent, which includes utilities, is $6,900. In December 2013 the Company agreed with the landlord for two additional, one-year options. As a result, if the Company exercises all of the options, it will be able to use the space through February 2019.

(10) Subsequent Events

In October 2014, the Company renewed the Attleboro, MA location lease through February, 2016.

On October 28, 2014, the Board of Directors added to its membership by electing Thomas M. Culligan. Mr. Culligan will also serve on the Audit, Compensation and Nominating Committees.

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 28, 2013.

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 29, 2012, 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 28, 2013.

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 and copper-tungsten.

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 Third Fiscal Quarter of 2014 (Q3 2014) Compared to the Third Fiscal Quarter of 2013 (Q3 2013); (all $ in 000's)

Total revenue was $6,070 in Q3 2014, a 2% increase compared with total revenue of $ 5,974 in Q3 2013. This increase was due to the sale of $ 535 of fracking balls, versus zero in 2013, offset in large part by lower sales of baseplates and hermetic packages.

Gross margin in Q3 2014 totaled $1,340 or 22% of sales. In Q3 2013, gross margin was $ 1,718 or 29% of sales. This decline in margin was due to higher direct labor costs, an unfavorable mix of product sales and lower prices of approximately $50.

Selling, general and administrative (SG&A) expenses were $1,018 in Q3 2014, 4% less than SG&A expenses of $ 1,059 in Q3 2013. This decrease was due largely to a reduction in sales commissions and lower accruals for bonuses and legal spending, offset in part by higher professional fees.

Operating profit for Q3 2014 totaled $322 compared with $659 in Q3 2013. This variance was primarily due to higher direct labor costs and an adverse product mix, offset in part by lower SG&A spending. Interest expense totaled $0 in Q3 2014, compared with $4 in Q3 2013, reflecting a reduction in the capitalized lease balance. Net income for Q3 2014 totaled $195 versus net income of $452 in Q3 2013.

Results of Operations for the First Nine Months of 2014 Compared to the First Nine Months of 2013 (all $ in 000's)

Total revenue was $17,191 in the first nine months of 2014, a 5% increase compared with total revenue of $16,306 in the first nine months of 2013. This increase was due in large part to the sales of fracking balls to the oil and gas industry of approximately $800 compared to $0 in prior year, and baseplates for traction products, including price increases on certain products.

Gross margin in the first nine months of 2014 totaled $3,936 or 23% of sales. In the first nine months of 2013 gross margin totaled $3,995 or 25% of sales. This decline was due to a combination of higher manufacturing costs and an adverse mix of lower margin in product sales, offset in part by price increases of approximately $300.

Selling, general and administrative (SG&A) expenses were $3,297 during the first nine months of 2014, up 11% compared with SG&A expenses of $ 2,967 in the first nine months of 2013. This increase was due principally to an increase in sales and marketing activities, including travel and entertainment, sales compensation, costs for attending industry trade conferences, and the cost of non-cash stock options.

As a result of the higher manufacturing and marketing costs and the adverse margin on the sales product mix, partially offset by an increase in sales volume and price increases, the Company earned an operating profit of $639 in the first nine months of 2014, compared with an operating profit of $1,029 in the same period last year. Interest expense declined to $2 in the first nine months of 2014, down from $26 in the first nine months of 2013, reflecting an elimination of short-term borrowings and lower capitalized lease balances. The net income for the first nine months of 2014 totaled $384 versus net income of $691 in the first nine months of 2013.

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 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 000's unless noted)

The Company's cash and cash equivalents at September 27, 2014 totaled $1,056. This compares to cash and cash equivalents at December 28, 2013 of $1,571. The decrease in cash was due primarily to a $2.1 million increase in receivables and inventories, offset in part by an increase in payables and accruals of $771 and earnings from operations of $640.

Accounts receivable at September 27, 2014 totaled $4.6 million compared with $2.9 million at December 28, 2013. Days Sales Outstanding (DSOs) increased from an unusually low 51 days at the end of 2013 to a more typical 68 days at the end of Q3, 2014. During Q4 of 2013, 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 28, 2013, and September 27, 2014 were both net of an allowance for doubtful accounts of $10.

Inventories totaled $2.6 million at September 27, 2014, compared with inventories of $2.2 million

at December 28, 2013. This increase was due in part to the decision to manufacture baseplates in Q3 2014 scheduled for delivery during the fourth quarter before the annual plant shutdown for the Christmas holidays. The inventory turnover in 2013 was 7.4 times (based on a 5 point average) and 7.2 times for the most recent four quarters ending Q3 2014.

All consigned inventory is shipped under existing purchase orders and per customers' requests. Of the inventory of $2.6 million at September 27, 2014, $964 was located at customers' locations pursuant to consigned inventory agreements. Of the total inventory of $2.2 million at December 28, 2013, $1.0 million was located at customers' locations pursuant to consigned inventory agreements.

The Company financed its working capital during Q3 2014 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 2014 from a combination of operating cash flow, existing cash balances and borrowings under its line of credit, if necessary.

Contractual Obligations

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 one percent (0.5%) 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 September 27, 2014, the Company was in compliance with all existing covenants. At September 27, 2014, the Company had $14 net carrying value of capital equipment financed by advances and capital lease obligations under the Lease Line and $486 available remaining. Equipment financed by the Santander equipment lease qualifies for treatment as a capital lease once converted from the Lease Line to a lease. At September 27, 2014 the Company had no borrowings under this LOC and its borrowing base at the time would have permitted an additional $2.0 million to have been borrowed.

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

Covenant	Requirement	Actual
Debt Service Coverage Ratio	Minimum of 1.25	35X
Current Ratio	Minimum of 1.5X	3.0X
Liabilities to Tangible Net Worth	Maximum of 1.0X	0.3X

Borrowings under the lease line	maximum of $500K	$14K
Borrowings under the line of credit*	maximum of $2M	None
	*(based on receivables at 9/27/14)	

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 September 27, 2014 the Company had $703 thousand of construction in progress and no outstanding commitments to purchase production equipment. 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.

In July 2006, the Company entered into a 10-year lease for its current operating facilities of approximately 37,520 square feet of rentable space located on approximately seven acres at its current site in Norton, MA. The lease is a triple net lease wherein the Company is responsible for payment of all real estate taxes, operating costs and utilities. The Company also has an option to buy the property and a first right of refusal during the term of the lease. Annual rental payments are $100 thousand in year one increasing to $150 thousand in year ten.

In February 2011, the Company entered into a lease for an additional 13.8 thousand square feet in Attleboro, MA for monthly rent, including utilities of $6,900. The lease term was for one year and had an option to extend the lease for five additional one year periods. In October 2014 the Company renewed the lease for one additional year through February, 2016 and also obtained two additional years of options which could extend the Company's use through February 2019.

The Company's contractual obligations at September 27, 2014 consist of the following:

		Payments Due by Period		
	Total	Remaining in FY 2014	FY 2015	FY 2016-
Capital lease obligations including interest	$14,116	$14,116	$—	$—
Purchase commitments for production equipment	$—	$—	$—	$—
Operating lease obligation for facilities	$252,600	$58,200	$156,900	$37,500

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not significantly exposed to the impact of interest rate changes or foreign currency fluctuations. The Company has not used derivative financial instruments.

ITEM 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 2013 Form 10-K

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

(a) Exhibits:

Exhibit 31.1 Certification Of Chief Executive Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

Exhibit 31.2 Certification Of Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002

Exhibit 32.1 Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002

(b) Reports on Form 8-K

On August 6, 2014 the Company filed a report on Form 8-K of its earnings report for the fiscal first quarter ended June 28, 2014.

On August 7, 2014 the Company filed a report on Form 8-K which included a transcript of the Company's conference call held on August 5, 2014.

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: November 6, 2014
/s/ Grant C. Bennett
Grant C. Bennett
Chief Executive Officer

Date: November 6, 2014

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer