CPS TECHNOLOGIES CORP/DE/
Form 10-Q
November 14, 2017

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 30, 2017
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 30, 2017: 13,203,436.

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS (Unaudited)

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

	September 30, 2017	December 31, 2016
ASSETS		

Current assets:		
Cash and cash equivalents	$ 1,689,610	$ 3,407,760
Accounts receivable-trade, net	3,034,175	1,959,606
Inventories, net	1,675,338	1,970,961
Prepaid expenses and other current assets	79,579	88,443
Total current assets	6,478,702	7,426,770
Property and equipment:		
Production equipment	9,081,157	9,046,846
Furniture and office equipment	493,152	412,412
Leasehold improvements	886,582	886,582
Total cost	10,460,891	10,345,840
Accumulated depreciation and amortization	(9,133,201)	(8,720,219)
Construction in progress	172,343	158,006
Net property and equipment	1,500,033	1,783,627
Deferred taxes,	3,450,349	2,827,349
Total assets	$ 11,429,084	$ 12,037,746

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Balance Sheets (Unaudited)
(concluded)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2017	December 31, 2016
Current liabilities:		
Accounts payable	837,217	662,482
Accrued expenses	615,883	623,959
Total current liabilities	1,453,100	1,286,441
Commitments (note 9)		
Stockholders' equity:		
Common stock, $0.01 par value, authorized 20,000,000 shares; issued 13,423,492; outstanding 13,203,436; at September 30, 2017 and December 31, 2016,	134,235	134,235
Additional paid-in capital	35,601,753	35,452,685

Accumulated deficit	(25,242,951)	(24,318,562)
Less cost of 220,056 common shares repurchased at September 30, 2017 and December 31, 2016,	(517,053)	(517,053)
Total stockholders' equity	9,975,984	10,751,305
Total liabilities and stockholders' equity	$ 11,429,084	$ 12,037,746

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Operations (Unaudited)

	Fiscal Quarters Ended		Nine month Periods Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues:				
Product sales	$ 4,211,962	$ 3,326,930	$ 10,781,175	$ 12,477,543
Total Revenues	4,211,962	3,326,930	10,781,175	12,477,543
Cost of product sales	3,450,915	2,941,098	9,686,103	10,399,236
Gross Margin	761,047	385,832	1,095,072	2,078,307
Selling, general and administrative expense	743,634	763,260	2,650,526	2,563,906
Operating income (loss)	17,413	(377,428)	(1,555,454)	(485,599)
Interest income	2,815	1,742	8,065	6,980
Other income	—	40,000	—	41,225
Net income (loss) before income tax expense	20,228	(335,686)	(1,547,389)	(437,395)
Income tax (benefit) expense	7,000	(196,900)	(623,000)	(237,000)
Net income (loss)	$ 13,228	$ (138,786)	$ (924,389)	$ (200,395)
Net income (loss) per basic common share	$ 0.00	$ (0.01)	$ (0.07)	$ (0.02)
Weighted average number of basic common shares outstanding	13,203,436	13,203,436	13,203,436	13,200,584
Net income (loss) per diluted common share	$ 0.00	$ (0.01)	$ (0.07)	$ (0.02)

Weighted average number of diluted common shares outstanding	13,229,868	13,203,436	13,203,436	13,200,584

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Statements of Cash Flows (Unaudited)

	Nine Month Periods Ended	
	September 30, 2017	October 1, 2016
Cash flows from operating activities:		
Net income (loss)	$(924,389)	$(200,395)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities		
Depreciation & amortization	412,982	380,901
Share-based compensation	149,068	153,557
Deferred taxes	(623,000)	(237,000)
Excess tax benefit from stock options exercised	—	(2,814)
Gain on sale of property and equipment	—	(40,000)
Changes in:		
Accounts receivable-trade, net	(1,074,569)	1,116,298
Inventories	295,623	490,523
Prepaid expenses	8,864	(11,500)
Accounts payable	174,735	(804,996)
Accrued expenses	(8,075)	(322,968)
Net cash provided by (used in) operating activities	(1,588,761)	521,606
Cash flows from investing activities:		
Purchases of property and equipment	(129,389)	(520,430)
Proceeds from sale of property and equipment	—	40,000
Net cash used in investing activities	(129,389)	(480,430)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	11,836
Excess tax benefit from stock options exercised	—	2,814
Repurchase of common stock	—	(10,000)
Net cash provided by financing activities	—	4,650

Net change in cash and cash equivalents	(1,718,150)	45,826
Cash and cash equivalents at beginning of period	3,407,760	3,412,649
Cash and cash equivalents at end of period	$1,689,610	$3,458,475
Supplemental cash flow information:		
Cash paid for taxes, net of refunds	$—	$8,000

See accompanying notes to financial statements.

CPS TECHNOLOGIES CORPORATION
Notes to Financial 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 31, 2016 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 31, 2016.

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

(3) Net Income (loss) Per Common and Common Equivalent Share

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by dividing net income (loss) 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 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Basic EPS Computation:				
Numerator:				
Net income (loss)	$13,228	$(138,786)	$(924,389)	$(200,395)
Denominator:				
Weighted average Common shares Outstanding	13,203,436	13,203,436	13,203,436	13,200,584
Basic EPS	$0.00	$(0.01)	$(0.07)	$(0.02)
Diluted EPS Computation:				
Numerator:				
Net income (loss)	$13,228	$(138,786)	$(924,389)	$(200,395)
Denominator:				
Weighted average Common shares Outstanding	13,203,436	13,203,436	13,203,436	13,200,584
Dilutive effect of stock options	26,432	—	—	—
Total Shares	13,229,868	13,203,436	13,203,436	13,200,584
Diluted EPS	$0.00	$(0.01)	$(0.07)	$(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.

There were no stock options granted or issued under the Plan during the quarters ended September 30, 2017 and October 1, 2016. During the quarter ended September 30, 2017, 24,000 options were forfeited and during the quarter ended October 1, 2016 1,200 options expired.

During the quarters ended September 30, 2017 and October 1, 2016 there were no shares repurchased.

During the three and nine months ended September 30, 2017 the Company recognized approximately $37 thousand and $149 thousand, respectively as share-based compensation expense related to previously granted shares under the Plan. These amounts are included as a component of selling, general and administrative expenses in the statement of operations.

During the three and nine months ended October 1, 2016 the Company recognized approximately $37 thousand and $153 thousand, respectively as share-based compensation expense related to previously granted shares under the Plan. A tax benefit of approximately $3 thousand was recognized as additional paid in capital in the nine months ended October 1, 2016 resulting from the excess tax benefit of option exercises.

(5) Inventories

Inventories consist of the following:

	September 30, 2017	December 31, 2016
Raw materials	$515,477	$398,994
Work in process	866,402	1,089,496
Finished goods	679,820	1,032,971
Total inventory	2,061,699	2,521,461
Reserve for obsolescence	(386,361)	(550,500)
Inventories, net	$1,675,338	$1,970,961

(6) Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2017	December 31, 2016
Accrued legal and accounting	$96,109	$87,690
Accrued payroll	375,825	456,063
Accrued other	143,949	80,206
	$615,883	$623,959

(7) Line of Credit

In June 2017, the Company renewed its $1,500,000 revolving line of credit (“LOC”) with Santander Bank. The agreement matures at the end of May 2018. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus 100 basis points. Under the terms of the agreement, the Company is required to maintain its operating accounts with Santander Bank. The Company is also subject to certain financial covenants. These include specific earnings levels, targeted current ratios and targeted debt to tangible net worth ratios at the end of each fiscal quarter. At September 30, 2017, the Company was in compliance with all existing covenants. Also, at September 30, 2017, the Company had no borrowings under this LOC and its borrowing base at the time would have permitted $1,500,000 to have been borrowed.

(8) Income Taxes

A valuation allowance against deferred tax assets is required to be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The Company believes that it will generate sufficient future taxable income to realize the tax benefits related to the remaining deferred tax assets and as such no valuation allowance has been provided against the deferred tax asset.

The Company recorded a tax expense of $5 thousand and tax benefit of $495 thousand for federal income taxes and a tax expense of $2 thousand and a tax benefit of $128 thousand for state income taxes during the three and nine months ended September 30, 2017, respectively.

The Company recorded a tax benefit of $146 thousand and $178 thousand for federal income taxes and a tax benefit of $50 thousand and $59 thousand for state income taxes during the three and nine months ended October 1, 2016, 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. In October 2017 the Company exercised its remaining option to extend the 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 the Company had an option to extend the lease for five additional one-year periods. In 2013 the Company obtained two years of additional options which could extend the Company's use through February 2019. In 2016, the Company exercised its option to extend the lease through the end of February 2018. Annual rental payments in 2017 are expected to approximate $83 thousand.

(10) Subsequent Events

Richard Adams, Senior Vice President & Chief Technology Officer, resigned on October 25, 2017. His resignation was included in an 8-K filing dated October 30, 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 31, 2016.

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 31, 2016, 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 31, 2016.

Overview

CPS Technologies Corporation (the ‘Company’ or ‘CPS’) provides advanced material solutions to the electronics, power generation, automotive and other industries.

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.

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 Third Fiscal Quarter of 2017 (Q3 2017) Compared to the Third Fiscal Quarter of 2016 (Q3 2016); (all $ in 000’s)

Total revenue was $4,212 in Q3 2017, a 27% increase compared with total revenue of $ 3,327 in Q3 2016. This increase was due to an increase in the sale of baseplates.

Gross margin in Q3 2017 totaled $761 or 18% of sales. In Q3 2016, gross margin was $ 386 or 12% of sales. This increase in margin was due almost entirely to the increase in revenues.

Selling, general and administrative (SG&A) expenses were $744 in Q3 2017, 3% less than SG&A expenses of $763 in Q3 2016. This change was due to lower marketing expenses in China, where the Company altered its selling approach and, to a lesser degree, the absence of a 401K match. These reductions in spending were offset in part by an increase in sales commissions due to higher volume.

The operating income for Q3 2017 totaled $18 compared with an operating loss of $377 in Q3 2016. This improvement was primarily due to the increase in revenues.

The company generated $3 of other income in Q3, 2017 compared with $42 in Q3, 2016. In Q3, 2016 $40 was the result of a sale of used equipment in excess of book value.

The company earned net income of $13 in Q3 2017 compared with a net loss of $139 in Q3 2016. The improvement was due primarily to an increase in revenues.

Results of Operations for the First Nine Months of 2017 Compared to the First Nine Months of 2016 (all $ in 000's)

Total revenue was $10,781 in the first nine months of 2017, a 14% decrease compared with total revenue of $12,478 in the first nine months of 2016. This decrease was due to a reduction in the sales of armor products and baseplates. There were no significant price changes during the first nine months of 2017 compared with the first nine months of 2016.

Gross margin in the first nine months of 2017 totaled $1,095 or 10% of sales. This compares with $2,078, or 17% of sales, generated during the first nine months of 2016. This decline in margin was due to lower revenues, offset in part by reduced spending in factory support costs.

Selling, general and administrative (SG&A) expenses were $2,651 during the first nine months of 2017, an increase of 3% compared with SG&A expenses of $2,564 incurred during the first nine months of 2016. During 2017 the Company incurred approximately an additional $200 in legal and other costs associated with the annual proxy process. If it had not been for this one-time additional costs, the total SG&A spending would have been down 4% versus the same nine months last year, primarily due to lower sales commissions and reduced marketing spending in China.

The Company generated interest and other income of $8 in the first nine months of 2017. This compares with other income in the first nine months of 2016 of $49, $40 of which was due to the sale of used equipment in excess of book value.

Primarily as a result of lower volume, the Company incurred an operating loss of $1,555 in the first nine months of 2017, compared with an operating loss of $486 in the same period last year. The net loss for the first nine months of 2017 totaled $924 versus a net loss of $200 in the first nine months of 2016.

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 30, 2017 totaled $1,690 compared with cash and cash equivalents at December 31, 2016 of $3,408. This decrease was due to operating losses and a decrease in working capital, offset in part by depreciation in excess of capital expenditures.

Accounts receivable at September 30, 2017 totaled $3,034 compared with $1,960 at December 31, 2016. Days Sales Outstanding (DSOs), increased from 61 days at the end of 2016 to 65 days at the end of Q3, 2017. Both of these statistics are consistent with historical patterns.

Inventories totaled $1,971 at December 31, 2016, compared with inventories of $1,675 at September 30, 2017. The inventory turnover in 2016 was 5.9 times (based on a 5 point average) and 6.4 times for the most recent four quarters ending Q3, 2017.

All consigned inventory is shipped under existing purchase orders and per customers' requests. Of the inventory of $1,675 at September 30, 2017, $490 was located at customers' locations pursuant to consigned inventory agreements. Of the total inventory of $1,971 at December 31, 2016, $848 was located at customers' locations pursuant to consigned inventory agreements.

The Company expects it will continue to be able to fund its working capital requirements for the remainder of 2017 from a combination of operating cash flow, existing cash balances and borrowings under its line of credit, if necessary.

Management believes that cash flows from operations, existing cash balances and the 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 30, 2017 the Company had $172 of construction in progress and no outstanding commitments to purchase production equipment.

Contractual Obligations (all $ in 000's unless otherwise noted)

In June 2017, the Company renewed its $1,500 revolving line of credit line with Santander Bank. The agreement matures at the end of May 2018. The LOC is secured by the accounts receivable and other assets of the Company, has an interest rate of prime plus 100 basis points. Under the terms of the agreement, the Company is required to maintain its operating accounts with Santander Bank. The Company is also subject to certain financial covenants. These include specific earnings levels, targeted current ratios and targeted debt to tangible net worth ratios at the end of subsequent quarters. At September 30, 2017, the Company was in compliance with all existing covenants. Also, at September 30, 2017, the Company had no borrowings under this LOC and its borrowing base at the time would have permitted $1,500 to have been borrowed.

The financial covenant requirement at the end of Q3, 2017 are shown below, together with the actual ratios achieved:

Covenant	Requirement	Actual
Current Ratio	Minimum of 2.0X	4.5X
Liabilities to Tangible Net Worth	Maximum of 0.5X	0.1X
Net Loss	Maximum of $250	$13 net income
Borrowings under the line of credit*	Maximum of $1,500	None
	*$1,500 could have been borrowed at September 30, 2017	

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. In October 2017 the Company exercised its remaining option to extend the 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 the Company had an option to extend the lease for five additional one-year periods. In 2013 the Company obtained two years of additional options which could extend the Company's use through February 2019. In 2016, the Company exercised its option to extend the lease through the end of February 2018. Annual rental payments in 2017 are expected to approximate $83 thousand.

The Company intends to finance production equipment, construction in progress and outstanding commitments under the lease agreements with existing cash balances and, if necessary, by utilizing its committed line of credit with Santander Bank.

The Company's contractual obligations at September 30, 2017, not including unexercised options to extend, consist of the following:

			Payments Due by Period	
	Total	Remaining in FY 2017	FY 2018	FY 2019
Operating lease obligation for facilities	$250,400	$58,800	$166,200	$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 2016 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 4, 2017 the Company filed a report on Form 8-K of its earnings report for the fiscal second quarter ended July 1, 2017.

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 14, 2017
/s/ Grant C. Bennett
Grant C. Bennett
Chief Executive Officer

Date: November 14, 2017

/s/ Ralph M. Norwood

Ralph M. Norwood

Chief Financial Officer