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CVD EQUIPMENT CORP
Form 10QSB
August 06, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2007

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: 1-16525

CVD EQUIPMENT CORPORATION

(Name of Small Business Issuer in Its Charter)

New York

11-2621692

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

1860 Smithtown Avenue
Ronkonkoma, New York 11779

(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Act:

Common Stock, Par value \$0.01

(Title of class)

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

Indicate by check mark whether issuer 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,335,000 shares of Common Stock, \$0.01 par value at August 3, 2007.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

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Certification of Chief Financial Officer

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Certification of Chief Financial Officer pursuant to U.S.C. Section 1350

PART 1 - FINANCIAL INFORMATION

Item 1 - Financial Statements

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2007
(Unaudited)

ASSETS

Current Assets:

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| | |
|--|---------------|
| Cash and cash equivalents | \$ 199,621 |
| Accounts receivable, net | 1,486,502 |
| Investments | 251,130 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,787,089 |
| Inventories | 2,903,676 |
| Other current assets | 178,251 |
| | ----- |
| Total current assets | 6,806,269 |
| Property, plant and equipment, net | 5,029,155 |
| Deferred income taxes | 943,218 |
| Other assets | 632,115 |
| Intangible assets, net | 94,457 |
| | ----- |
| | \$ 13,505,214 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current Liabilities: | |
| Current maturities of long-term debt | \$ 225,550 |
| Bank line of credit | - |
| Short-term debt | - |
| Accounts payable | 556,093 |
| Accrued expenses | 785,211 |
| Accrued professional fees - related party | 35,000 |
| Deferred revenue | 12,881 |
| Deferred tax liability | 256,096 |
| | ----- |
| Total current liabilities | 1,870,831 |
| Long-term debt, net of current portion | 2,790,933 |
| Bank line of credit | 585,000 |
| Deferred tax liability | 620,934 |
| | ----- |
| Total liabilities | 5,867,698 |
| | ----- |
| Commitments and contingencies | --- |
| Stockholders' Equity | |
| Common stock, par value \$.01 per share, authorized 10,000,000 shares; issued and outstanding, 3,303,500 shares at June 30, 2007 and 3,250,500 shares at December 31, 2006 | 33,035 |
| Additional paid-in capital | 3,581,213 |
| Retained earnings | 4,023,268 |
| | ----- |
| Total stockholders' equity | 7,637,516 |
| | ----- |
| | \$ 13,505,214 |
| | ===== |

The accompanying notes are an integral part of the consolidated financial statements.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 |
|--|-------------------------------|--------------|-----------------------------|
| | 2007 | 2006 | 2007 |
| Revenue | \$ 3,071,244 | \$ 3,111,132 | \$6,882,520 |
| Cost of revenue | 1,899,693 | 2,044,806 | 4,455,020 |
| Gross profit | 1,171,551 | 1,066,326 | 2,427,499 |
| Operating expenses | | | |
| Selling and shipping | 148,260 | 200,362 | 426,570 |
| General and administrative | 780,020 | 731,441 | 1,543,240 |
| Related party - professional fees | 25,000 | 10,000 | 35,000 |
| Total operating expenses | 953,280 | 941,803 | 2,004,810 |
| Operating income | 218,271 | 124,523 | 422,689 |
| Other income (expense) | | | |
| Interest income | 34 | 387 | 600 |
| Interest expense | (52,300) | (58,880) | (105,773) |
| Other income | 34,309 | 11,285 | 39,400 |
| Total other (expense) | (17,957) | (47,208) | (66,309) |
| Income before income taxes | 200,314 | 77,315 | 356,379 |
| Income tax provision | (35,387) | (54,252) | (95,037) |
| Net income | \$ 164,927 | \$ 23,063 | 261,339 |
| Basic income per share | \$ 0.05 | \$ 0.01 | \$ 0.01 |
| Diluted income per common share | \$ 0.05 | \$ 0.01 | \$ 0.01 |
| Weighted average common shares outstanding basic income per share | 3,286,732 | 3,146,273 | 3,292,660 |
| Effect of potential common share issuances Stock options | 151,480 | 155,102 | 139,430 |
| Weighted average common shares outstanding diluted income per share | 3,438,212 | 3,301,375 | 3,432,090 |

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The accompanying notes are an integral part of the consolidated financial statements

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

| | Six Months June 30, 2007 |
|---|-----------------------------|
| | ----- |
| Cash flows from operating activities | |
| Net income | \$ 261,330 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | |
| Stock based compensation expense | 85,260 |
| Depreciation and amortization | 211,630 |
| Deferred tax benefit | (96,628) |
| Bad debt provision | (2,000) |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 892,560 |
| Cost in excess of billings on uncompleted contracts | (1,070,426) |
| Inventory | (199,170) |
| Other current assets | (59,951) |
| Accounts payable | (84,678) |
| Accrued expenses | 98,440 |
| Deferred revenue | (199,369) |
| Net cash (used in) provided by operating activities | (162,970) |
| Cash flows from investing activities: | |
| Capital expenditures | (388,435) |
| Deposits | 13,760 |
| Net cash used in investing activities | (374,669) |
| Cash flows from financing activities: | |
| Proceeds from short-term borrowings | 1,125,000 |
| Payments of short-term borrowings | (1,335,000) |
| Proceeds from bank line of credit - long-term | 585,000 |
| Proceeds from long-term debt | 139,510 |
| Payments of long-term debt | (125,591) |
| Net proceeds from stock options exercised | 91,000 |

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| | |
|--|-----------|
| Net cash provided by financing activities | 479,91 |
| Net (decrease) increase in cash and cash equivalents | (57,720) |
| Cash and cash equivalents at beginning of period | 257,34 |
| Cash and cash equivalents at end of period | \$ 199,62 |
| Supplemental disclosure of cash flow information | |
| Income Taxes Paid | \$ 104,25 |
| Interest Paid | \$ 101,44 |

The accompanying notes are an integral part of the consolidated financial statements.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that can be expected for the year ending December 31, 2007.

The balance sheet as of December 31, 2006 has been derived from the audited financial statements at such 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.

The accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements in the December 31, 2006 Form 10-KSB.

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For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report of Form 10-KSB for the year ended December 31, 2006.

Intercompany transactions have been eliminated in consolidation.

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CVD Equipment Corporation and its wholly owned subsidiary. In December 1998, a subsidiary, Stainless Design Concepts, Ltd., was formed as a New York Corporation. In April 1999, this subsidiary was merged into CVD Equipment Corporation. The Company has one inactive subsidiary, CVD Materials Corporation as of December 31, 2006 and 2005. All significant intercompany accounts and transactions have been eliminated in consolidation.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as revenues on long-term contracts recognized on the percentage-of-completion method, allowances for doubtful accounts, depreciation and amortization, tax provisions and product warranties.

Revenue and Income Recognition

The Company recognizes revenues and income using the percentage-of-completion method for custom production-type contracts while revenues from other products are recorded when such products are accepted and shipped. Profits on custom production-type contracts are recorded on the basis of the Company's estimates of the percentage-of-completion of individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy. Under this method, revenues are recognized based on costs incurred to date compared with total estimated costs.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed.

Cash and Cash Equivalents

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The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents.

Investments

Investments in unconsolidated companies in which the Company owns less than a 20% interest or does not exercise a significant influence are carried at cost.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3: UNCOMPLETED CONTRACTS

Costs, estimated earnings and billings on uncompleted contracts are summarized as follows:

| | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
| | ----- | ----- |
| | | (Audited) |
| Costs incurred on uncompleted contracts | \$ 1,959,177 | \$1,509,672 |
| Estimated earnings | 2,954,762 | 2,015,836 |
| | ----- | ----- |
| Billings to date | 5,039,946 | 3,525,508 |
| | (3,252,857) | (2,808,845) |
| | ----- | ----- |
| | \$ 1,787,089 | \$ 716,663 |
| | ----- | ----- |

Included in accompanying balance sheets
Under the following caption:

| | | |
|--|--------------|------------|
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 1,787,089 | \$ 716,663 |
|--|--------------|------------|

NOTE 4: INVENTORIES

Inventories consist of the following:

| | June 30, 2007 | December 31, 2006 |
|-----------------|---------------|-------------------|
| | ----- | ----- |
| | | (Audited) |
| Raw materials | \$ 876,432 | \$ 860,085 |
| Work-in-process | 1,698,283 | 1,515,460 |
| Finished goods | 328,961 | 328,961 |
| | ----- | ----- |
| | \$2,903,676 | \$ 2,704,506 |
| | ----- | ----- |

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NOTE 5: BAD DEBTS

Accounts receivables are presented net of an allowance for doubtful accounts of \$5,217 and \$7,217 as of June 30, 2007 and December 31, 2006 respectively. The allowance is based on prior experience and management's evaluation of the collectibility of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in economic conditions.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

NOTE 6: BANK LINE OF CREDIT

| | June 30, 2007 ----- | December 31, 2006 ----- (Audited) |
|-----------------------|------------------------|---|
| Short Term Borrowings | \$ --- | \$210,000 |
| Long term Borrowings | \$585,000 | --- |

On June 1, 2007, the Company entered into a new three-year Revolving Credit Agreement with a bank permitting it to borrow on a revolving basis amounts up to \$2,000,000 until June 1, 2010. Interest is payable on any unpaid principal balance at a rate per annum to be elected by the Company which shall be equal to either (1) the LIBOR Rate plus 2.50% or the bank's prime rate plus 1/4 of 1%. The amount outstanding on the facility was \$585,000 and \$210,000 on June 30, 2007 and December 31, 2006 respectively. Borrowings are collateralized by the Company's assets. Amounts outstanding as of December 31, 2006 were borrowed under the Company's prior facility which is now terminated.

NOTE 7: STOCK COMPENSATION EXPENSE

On January 1, 2006, the Company adopted the provisions of SFAS No. 123-R "Share-Based Payment" using the modified prospective method. SFAS No. 123-R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. Under the modified prospective method of adopting SFAS No. 123-R, the Company recognized compensation cost for all share-based payments granted after January 1, 2006, plus any awards granted to employees prior to January 1, 2006 that remain unvested at that time. Under this method of adoption, no restatement of prior periods is made.

During the three and six months ended June 30, 2007 and June 30, 2006, the Company recorded into selling and general administrative expense approximately \$44,000 and \$85,000 and \$33,000 and \$86,000 respectively for the cost of employee services received in exchange for equity instruments based on the grant-date fair value of those instruments in accordance with the provisions of SFAS No. 123-R.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8: INCOME TAXES

The provision (benefit) for income taxes includes the following:

| | Six Months Ended June 30, 2007 ----- | Six Months Ended June 30, 2006 ----- |
|--------------------------|--|--|
| Current: | | |
| Federal | \$ 166,981 | \$ 214,087 |
| State | 24,684 | 123 |
| | ----- | ----- |
| Total Current Provision | 191,665 | 214,210 |
| Deferred: | | |
| Federal | (88,423) | (78,504) |
| State | (8,205) | (20,539) |
| | ----- | ----- |
| Total Deferred (Benefit) | (96,628) | (99,043) |
| | ----- | ----- |
| | \$ 95,037 | \$ 115,167 |
| | ----- | ----- |

All of the Company's federal net operating loss (NOL'S) carry forwards of approximately \$40,000 have been utilized and \$276,000 of the Company's \$277,000 state net operating loss (NOL'S) carry forwards have been utilized through June 30, 2007.

NOTE 9: SUBSEQUENT EVENTS

The Company sold equipment to a Customer for a purchase price of one hundred four thousand, four hundred eighty two (104,482) shares of common stock, par value \$.001 per share. Between July 19, 2007 and July 31, 2007, the Company has the option to demand that the Customer make cash payment i.e.: two hundred fifty-one thousand, one hundred thirty 00/100 U.S. dollars (\$251,130) for the equipment, the amount that would have been required had the Customer made cash payment for the equipment on July 19, 2006 in exchange for the return of said stock. The Customer's obligation to make such payment pursuant to the terms of the option is secured by a perfected lien upon the subject equipment and the Company's right to execute upon the aforesaid common stock. In the event the Customer does not make full payment, the Company has also reserved the right to maintain plenary proceedings against the Customer for the purpose of recovering such sums as may be due as well as the right to obtain a deficiency judgment in the event that the collateral in the equipment and stock is insufficient to discharge said obligation.

The parties agreed to extend the option to demand cash payment to the period between December 1, 2007 and March 12, 2008.

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of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes filed as part of this report.

Except for historical information contained herein, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, as amended. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements, include but are not limited to: competition in the Company's existing and potential future product lines of business; the Company's ability to obtain financing on acceptable terms if and when needed; uncertainty as to the Company's future profitability, uncertainty as to the future profitability of acquired businesses or product lines, uncertainty as to any future expansion of the Company. Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements and the failure of such assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Results of Operations

Three and Six Months Ended June 30, 2007 vs.
Three and Six Months Ended June 30, 2006

Revenue for the three and six month periods ended June 30, 2007 was approximately \$3,071,000 and \$6,883,000 respectively, compared to approximately \$3,111,000 and \$6,323,000 respectively for the three month and six month periods ended June 30, 2006. This represents a decrease of 1.3% for the comparable three month period and an 8.9% increase for the comparable six month period. While demand for our customized CVD systems and equipment provided by the First Nano product line remains strong, revenues for the current three and six month period were increasingly impacted throughout the three and six month periods by the Company's decision to utilize some of its resources towards broadening the First Nano product line, which it anticipates will add to the Company's long-term growth and profitability.

The Company generated gross profits of approximately \$1,171,000 and \$2,427,000 resulting in gross profit margins of 38.0% and 35.3% for the three and six months ended June 30, 2007 compared to gross profits of approximately \$1,066,000 and \$2,136,000 resulting in gross profit margins of 34.3% and 33.8% for the three and six months ended June 30, 2006. The increase is primarily attributable to the gross profit margins related to the product mix comprising the Company's sales.

Selling and shipping expenses for the three months ended June 30, 2007 and 2006

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were \$148,260 and \$200,362 respectively, representing a 26.0% decrease. This decrease is attributed directly to a decrease in sales commissions. Sales concluded in the current period were primarily by our direct sales personnel and therefore were not subject to outside sales commissions.

Selling and shipping expenses for the six months ended June 30, 2007 were approximately \$427,000 compared to \$397,000 for the six months ended June 30, 2006. This increase of 7.4% is primarily attributable to a \$47,000 increase in trade show expenses which corresponds to the implementation of the Company's sales marketing program.

The Company incurred approximately \$805,000 and \$1,578,000 of general and administrative expenses during the three and six months ended June 30, 2007, compared to the approximately \$741,000 and \$1,460,000 of general and administrative expenses incurred in the three and six months ended June 30, 2006 representing increases of 8.7% and 8.1% or approximately \$64,000 and \$118,000. This increase is primarily attributable to increases in employee benefit costs, professional fees, insurance and energy costs.

As a result of the foregoing factors, operating income was \$218,000 and \$423,000 for the three and six months ended June 30, 2007 respectively. This represents an increase of 75.2% and 51.2% compared to operating income of \$125,000 and \$280,000 for the three and six month periods ended June 30, 2006.

Interest expense for the three and six months ended June 30, 2007 was approximately \$52,000 and \$106,000 respectively compared to approximately \$59,000 and \$116,000 for the three and six months ended June 30, 2006. The decreases of 11.2% and 8.4% in interest expense are due to reduced borrowing by the Company.

Other income during the three months ended June 30, 2007 was approximately \$34,000 compared to \$11,000 for the three months ended June 30, 2006. This was primarily the result of the receipt of \$28,000 which was previously written off as uncollectible in 2004.

Other income during the six months ended June 30, 2007 was approximately \$39,000 compared to approximately \$87,000 for the corresponding period one year ago. This was the result of the receipt of \$70,000 during the quarter ended March 31, 2006 which was previously written off as uncollectible in 2004.

For the three and six months ended June 30, 2007, the Company recorded a current income tax expense of approximately \$74,000 and \$192,000 respectively, that was reduced by the deferred tax benefit of approximately \$39,000 and \$97,000.

The Company reported net income of approximately \$165,000 for the current three month period compared to net income of approximately \$23,000 for the same period, one year ago. This increase was primarily due to the increased gross profit margins experienced during the current three month period.

For the six month period ended June 30, 2007, the Company reported net income of approximately \$261,000 an increase of 92.1% as compared to net income of \$136,000 for the six months ended June 30, 2006. This is a result of increased revenues and increased gross profit margins for the current six month period.

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Liquidity and Capital Resources

As of June 30, 2007, the Company had an aggregate working capital of approximately \$4,935,000 compared to \$4,151,000 at December 31, 2006 an increase of \$784,000. This increase was primarily the result of \$585,000 being reclassified from short term borrowing to long term as a result of the new three year Revolving Credit Agreement in addition to the increases in costs and estimated earnings in excess of billings on uncompleted contracts of approximately \$1,070,000 and inventory of \$199,000 partially offset by a decrease in accounts receivable of \$891,000.

Accounts receivable at June 30, 2007 was \$1,486,502 compared to \$2,377,069 at December 31, 2006. This decrease is primarily attributable to the timing of shipments and customer payments.

As of June 30, 2007, the Company's backlog was approximately \$2,435,000, a decrease of \$1,130,000 or 31.7% compared to \$3,565,000 at December 31, 2006. Timing for completion of the backlog varies depending on the product mix, however, there is generally a one to six month lag in the completion and shipping of backlogged product. Backlog from quarter to quarter can vary based on the timing of order placements and shipments.

Revolving Credit Facility and Borrowings

On June 1, 2007, the Company entered into a three year Revolving Credit Agreement with a bank permitting it to borrow on a revolving basis amounts up to \$2,000,000 until June 1, 2010, at which time it will be subject to renewal. The loan bears interest on any unpaid principal balance at a rate to be elected by the Company, which shall be equal to either (1) the LIBOR Rate plus 2.50% or (2) the bank's prime rate plus 1/4 of 1%. This agreement contains certain financial and other covenants, with which we were in compliance at June 30, 2007. As of June 30, 2007, \$585,000 was outstanding on this facility. Borrowings are collateralized by the Company's assets.

The Company had an equipment line of credit of \$250,000 with that same bank. This line of credit was discontinued as of June 1, 2007 with the inception of the three year Revolving Credit Agreement previously discussed.

The Company believes that its cash, cash equivalents and available credit facilities will be sufficient to meet its working capital and investment requirements for the next twelve months.

However, we have determined that in order to allow our business to grow more aggressively, we will need to raise additional capital. For this reason, we are considering raising capital through equity financing. The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission on July 3, 2007. As of the date hereof, the Registration Statement has not been declared effective by the Securities and Exchange Commission; nor is there assurance that such Registration Statement will ever be declared effective. In addition, any final decision to raise additional capital will depend on market conditions, order levels, opportunities presented to us and other factors including our ability to have the Registration Statement declared effective by the Securities and Exchange Commission.

Item 3. Controls and Procedures.

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Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to insure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting that occurred during the six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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CVD EQUIPMENT CORPORATION

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

In September 1999, the Company was named in a lawsuit filed by Precision Flow Technologies, Inc. ("PFT"), in the United States District Court for the Northern District of New York, relating to comments allegedly made by the Company's President and Chief Executive Officer, Leonard A. Rosenbaum, concerning the intellectual property obtained in the purchase of assets of Stainless Design Corporation. The Company promptly filed a counterclaim for unauthorized use of its intellectual property and filed a complaint against the President of PFT (these two actions have been consolidated) alleging the same acts as set forth in the counterclaim. The plaintiff is seeking monetary damages and injunctive relief. In the Company's counterclaim, it are also seeking monetary damages and injunctive relief. All pre-trial disclosure has been completed. The Company withdrew certain of its counterclaims following the completion of discovery and the court has dismissed certain of the claims which had been asserted by PFT. No trial date has been set. In May 2002, the Company instituted a new action against PFT and certain of its employees, in the United States District for the Northern District of New York seeking injunctive relief and monetary damages based upon copyright violations. A motion by PFT to dismiss this action which had been pending since June 2002, was denied in March 2007. On May 25, 2007 PFT's motion for reconsideration was likewise denied. On June 11, 2007, PFT filed its answer in which no counterclaims have been asserted against the Company. Pre-trial disclosure has not yet been completed.

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Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None.

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Item 6. Exhibits

(a) Exhibits filed with this report:

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification of Chief Executive Officer pursuant to U.S.C. Section 1350

32.2 Certification of Chief Financial Officer pursuant to U.S.C. Section 1350

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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, this 6th day of August 2007.

CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum

Leonard A. Rosenbaum
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Glen R. Charles

Glen R. Charles
Chief Financial Officer
(Principal Financial and

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Accounting Officer)

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EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
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