

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

CVD EQUIPMENT CORP
Form 10-Q
August 14, 2008

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

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 Registrant in Its Charter)

New York 11-2621692
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

1860 Smithtown Avenue
Ronkonkoma, New York 11779
(Address including zip code of registrant's Principal Executive Offices)

(631) 981-7081

(Registrant'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)

Indicate by check whether the issuer: (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 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act). (check one)

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Yes [] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,749,500 shares of Common Stock, \$0.01 par value at August 12, 2008.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Index

	Page
Part I - Financial Information	
Item 1 - Financial Statements (Unaudited)	
Consolidated Balance Sheets at June 30, 2008 (Unaudited) and December 31, 2007	3
Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 2008 and 2007	4
Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2008 and 2007	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3 - Quantitative and Qualitative Disclosures About Market Risk	17
Item 4T - Controls and Procedures	17
Part II - Other Information	18
Item 1 - Legal Proceedings	18
Item 2 - Changes in Securities and Use of Proceeds	18
Item 3 - Defaults Upon Senior Securities	18
Item 4 - Submission of Matters to a Vote of Security Holders	18
Item 5 - Other Information	18
Item 6 - Exhibits and Reports Filed on Form 8-K	18
Signatures	19
Exhibit Index	20
Certification of Chief Executive Officer	21
Certification of Chief Financial Officer	22
Certification of Chief Executive Officer pursuant to U.S.C. Section 1350	23
Certification of Chief Financial Officer pursuant to U.S.C. Section 1350	24

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

	June 30, 2008 (Unaudited)	December 31, 2007
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,167,912	\$ 5,111,000
Accounts receivable, net	2,497,663	1,711,000
Investment	251,130	2,000,000
Cost and estimated earnings in excess of billings on uncompleted contracts	3,244,370	1,800,000
Inventories	2,890,647	3,000,000
Deferred income taxes - current	103,488	-
Other current assets	267,960	3,000,000
	-----	-----
Total Current Assets	12,423,170	12,400,000
Property, plant and equipment, net	7,473,608	5,000,000
Deferred income taxes - non-current	381,382	2,000,000
Other assets	639,894	1,100,000
Intangible assets, net	73,968	1,000,000
	-----	-----
Total Assets	\$ 20,992,022	\$ 19,000,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 279,961	\$ 2,000,000
Accounts payable	1,187,441	5,000,000
Accrued expenses	1,124,175	1,200,000
Accrued professional fees - related party	17,500	1,000,000
Deferred revenue	--	-
	-----	-----
Long-term debt, net of current portion	2,609,077	2,100,000
	4,018,743	2,600,000
	-----	-----
Total liabilities	6,627,820	4,800,000
	-----	-----
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock - \$0.01 par value - 10,000,000 shares authorized; issued and outstanding, 4,733,500 at June 30, 2008 and 4,718,500 at December 31, 2007	47,335	4,500,000
Additional paid-in-capital	9,751,472	9,500,000
Retained earnings	4,565,395	4,500,000
	-----	-----
Total Stockholders' Equity	14,364,202	14,100,000
	-----	-----
Total liabilities and stockholders' equity	\$ 20,992,022	\$ 19,000,000

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

o Derived from audited financial statements for the year ended December 31, 2007 (see Form 10-KSB Annual Report filed on March 31, 2008 with the Securities and Exchange Commission).

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

3

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

	Three Months Ended June 30, 2008 -----	2007 -----
Revenue	\$ 4,268,904	\$ 3,071,244
Cost of revenue	3,117,172 -----	1,899,693 -----
Gross profit	1,151,732	1,171,551
Operating expenses		
Selling and shipping	203,902	148,260
General and administrative	878,190	780,020
Related party - professional fees	5,000	25,000
	-----	-----
Total operating expenses	1,087,092 -----	953,280 -----
Operating income	64,640	218,271
Other income (expense)		
Interest income	21,954	34
Interest expense	(63,557)	(52,300)
Other income	5,629	34,309
	-----	-----
Total other income (expense)	(35,974) -----	(17,957) -----
Income before income taxes	28,666	200,314
Income tax expense	(21,492) -----	(35,387) -----
Net income	\$ 7,174 =====	\$ 164,927 =====
Basic income per common share	\$ 0.00 =====	\$ 0.05 =====

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Diluted income per common share	\$ 0.00	\$ 0.05
	=====	=====
Weighted average common shares outstanding basic income per share	4,733,500	3,286,732
Effect of potential common share issuance: Stock options	31,778	151,480
	-----	-----
Weighted average common shares outstanding diluted income per share	4,765,278	3,438,212
	=====	=====

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

4

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

	2008	Six Months June

Cash flows from operating activities		
Net income	\$ 26,378	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation expense	137,893	
Depreciation and amortization	250,042	
Deferred tax benefit	(128,019)	
Bad debt provision	17,397	
Changes in operating assets and liabilities:		
Accounts receivable	(745,795)	
Cost and estimated earnings in excess of billings on uncompleted contracts	(1,397,082)	
Inventories	124,988	
Other current assets	111,400	
Accounts payable	669,507	
Accrued expenses	(220,309)	
Deferred revenue	(47,444)	

Net cash (used in) operating activities	(1,201,044)	

Cash flows from investing activities:		
Capital expenditures	(2,585,893)	
Deposits	425,312	

Net cash (used in) investing activities	(2,160,581)	

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Cash flows from financing activities:	
Proceeds received on bank line of credit - net	-
Proceeds from real estate and other loans	2,305,000
Payments of long-term debt	(906,910)
Net proceeds from stock options exercised	21,000

Net cash provided by financing activities	1,419,090
Net (decrease) in cash and cash equivalents	(1,942,535)
Cash and cash equivalents at beginning of period	5,110,447

Cash and cash equivalents at end of period	\$ 3,167,912
	=====

Supplemental disclosure of cash flow information

Income taxes paid	\$ 491,495
Interest paid	\$ 114,630

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

5

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-Q and Article 8 of Regulation S-X. 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, 2008 are not necessarily indicative of the results that can be expected for the year ending December 31, 2008.

The balance sheet as of December 31, 2007 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 CVD Equipment Corporation's ("the Company") consolidated financial statements in the December 31, 2007 Form 10-KSB.

For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

the year ended December 31, 2007.

All material intercompany transactions have been eliminated in consolidation.

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

6

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The liability, "Billings in excess of costs on uncompleted contracts" represents amounts billed in excess of revenues earned.

NOTE 3: UNCOMPLETED CONTRACTS

Costs and estimated earnings in excess of billings on uncompleted contracts are summarized as follows:

	June 30, 2008	December 31, 2007
	-----	-----
	(Unaudited)	
Costs incurred on uncompleted contracts	\$ 2,424,735	\$ 1,887,022
Estimated earnings	2,605,893	2,158,386
	-----	-----
Billings to date	5,030,628	4,045,408
	(1,786,258)	(2,198,120)
	-----	-----
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 3,244,370	\$ 1,847,288
	=====	=====

7

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

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

NOTE 4: INVENTORIES

Inventories consist of the following:

	June 30, 2008 ----- (Unaudited)	Decemb -----
Raw materials	\$1,374,550	\$
Work-in-process	1,334,694	
Finished goods	181,403	
	-----	-----
	\$2,890,647	\$
	=====	=====

NOTE 5: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices are observable, and inputs derived from or corroborated by observable market data.

Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The Company measured the fair value of the equity investment based on the combination of its best estimate of the fair value of the non-marketable securities and the equipment. Based on our analysis, the assigned fair value of the Company's equity investment of approximately \$250,000 at June 30, 2008 appears appropriately stated.

The adoption of SFAS No. 157 did not have a material impact on our fair value measurements.

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

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Description	Fair Value Measurement at Reporting Date Using				
June 30, 2008	Quoted Prices in Active Markets for Identical Assets Level (1)		Significant Other Observable Inputs Level (2)		
Equity investment	\$251,130	\$	---	\$	---
Total Assets	\$251,130 =====	\$	---	\$	---
Liabilities	\$ ---	\$	---	\$	---
Total Liabilities	\$ ---	\$	---	\$	---

NOTE 6: BAD DEBTS

Accounts receivables are presented net of an allowance for doubtful accounts of \$29,985 and \$12,588 as of June 30, 2008 and December 31, 2007 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.

NOTE 7: SHORT TERM BORROWINGS

On April 22, 2008, the Company entered into a three year Modified and Restated Revolving Credit Agreement with Capital One, N.A. (the "Bank") as successor to North Fork Bank, pursuant to which the Bank has agreed to make revolving loans to the Company of up to \$5 million dollars until May 1, 2011, at which time it will be subject to renewal. The loan agreement amends and supersedes the Company's previous \$2 million dollar revolving credit facility with the Bank. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR rate plus 2.00% or (ii) the Bank's prime rate minus .25%. This agreement contains certain financial and other covenants. Borrowings are collateralized by the Company's assets. The amount available under this agreement, was \$4,840,000 as of June 30, 2008. The amount available under the prior facility as of June 30, 2007 was \$1,220,000. As of June 30, 2008, the Company is in full compliance with the terms of the Revolving Credit Agreement.

9

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

NOTE 8: STOCK-BASED COMPENSATION EXPENSE

On January 1, 2006, the Company adopted the provisions of SFAS No. 123-R

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

"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, 2008 and June 30, 2007, the Company recorded as part of selling and general administrative expense, approximately \$69,000 and \$138,000 and \$44,000 and \$85,000 respectively for the cost of employee and director 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.

NOTE 9: INCOME TAXES

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

	Six Months Ended June 30,	
	2008	2007
Current:		
Federal	\$ 100,199	\$ 166,981
State	37,870	24,684
	138,069	191,665
Deferred:		
Federal	(98,043)	(88,423)
State	(29,976)	(8,205)
	(128,019)	(96,628)
	\$ 10,050	\$ 95,037

The majority of the Company's state and all of the federal net operating loss (NOL'S) carry forwards have been utilized through June 30, 2008. For the three and six months ended June 30, 2008, the Company recorded a current income tax expense of approximately \$92,000 and \$138,000 respectively, that was reduced by a deferred tax benefit of \$70,000 and \$128,000 respectively.

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

NOTE 10: EARNINGS PER SHARE

We have applied SFAS No. 128, "Earnings Per share" in its calculation and presentation of earnings per share - "basic" and "diluted". Basic earnings per share are computed by dividing net earnings available to common shareholders (the numerator) by the weighted average number of common shares (the denominator) for the period presented. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Stock options to purchase 248,500 shares of common stock were outstanding and 121,125 were exercisable during the six months ended June 30, 2007. Stock options to purchase 441,000 shares were outstanding and 234,125 were exercisable during the six months ended June 30, 2008, However, during the six months ended June 30, 2008, only 84,125 were included in the computation of diluted earnings per share because the option exercise prices were less than the average market price of our common stock during these periods.

The dilutive potential common shares on warrants and options is calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potential dilutive effect of the securities.

The following table sets forth our computation of basic and diluted net income per share:

	Three months ended June 30,	
	2008	2007
	----	----
Numerator:		
Net income used in calculation of basic and diluted earnings per share	\$ 7,174	\$ 164,927
	-----	-----
Denominator:		
Weighted-average common shares outstanding used in calculation of basic earnings per share	4,733,500	3,286,732
Effect of dilutive securities:		
Stock options and equivalents	31,778	151,480
	-----	-----
Weighted-average common shares used in calculation of diluted earnings per share	4,765,278	3,438,212
	=====	=====
Net income per share:		
Basic	\$ 0.00	\$ 0.05
Diluted	\$ 0.00	\$ 0.05

	Six months ended June 30,	
	2008	2007
	----	----

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Numerator:

Net income used in calculation of basic and diluted

earnings per share	\$ 26,378	\$ 261,3
	-----	-----

Denominator:

Weighted-average common shares outstanding used in calculation of basic earnings per share	4,732,758	3,292,6
---	-----------	---------

Effect of dilutive securities: Stock options and equivalents	33,008	139,4
	-----	-----

Weighted-average common shares used in calculation of diluted earnings per share	4,765,766	3,432,0
	=====	=====

Net income per share:		
Basic	\$ 0.01	\$ 0.0
Diluted	\$ 0.01	\$ 0.0

12

Item 2. Management's Discussion and Analysis or Plan of Operation.

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, 2008 vs. Three and Six Months Ended June 30, 2007

Revenue

Revenue for the three and six month period ended June 30, 2008 was approximately \$4,269,000 and \$8,312,000 respectively as compared to \$3,071,000 and \$6,883,000 respectively for the three and six month periods ended June 30, 2007, an increase of 39.0% and 20.8% respectively. We attribute the increase to an

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

increase in selling effort for all of our products. The proceeds received during the latter half of 2007, as a result of the sale of our common stock, has allowed us to hire additional personnel, and enabled our key personnel to focus their efforts on selling into our targeted market segments.

Gross Profit

The Company generated gross profits of approximately \$1,152,000 and \$2,369,000 respectively resulting in gross profit margins of 27.0 % and 28.5% respectively for the three and six months ended June 30, 2008 as compared to gross profits of approximately \$1,171,000 and \$2,427,000 respectively resulting in gross profit margins of 38% and 35.3% respectively for the three and six months ended June 30, 2007. The decrease in gross profit is primarily attributable to an increase in engineering and production personnel to support our increased orders, the expansion of our First Nano laboratory and new product development costs in the Nanomaterials, Energy and Semiconductor fields.

13

Selling, General and Administrative Expenses

Selling and shipping expenses for the three months ended June 30, 2008 and 2007 were approximately \$204,000 and \$148,000 respectively, representing a 37.5% increase versus the prior period. This increase is primarily attributable to an increase in sales commissions earned during the current period for sales that were concluded through efforts by our outside sales representatives.

Selling and shipping expenses for the six months ended June 30, 2008 were approximately \$385,000 compared to \$427,000 for the six months ended June 30, 2007. This decrease of 9.8% is primarily attributable to the Company's reduced attendance at trade shows and overall reduction in sales commission expense during the six month period.

The Company incurred approximately \$883,000 of general and administrative expenses during the three months ended June 30, 2008, compared to the approximately \$805,000 incurred during the three months ended June 30, 2007. This represents an increase of 9.7% or approximately \$80,000 which is primarily attributable to the costs associated with employee recruitment efforts, costs associated with the new facility purchased earlier this year, increased payroll and benefit costs, general insurance, stock-based compensation and investor relations costs which were partially offset with a decrease in legal fees.

The Company incurred approximately \$1,915,000 of general and administrative expenses during the six months ended June 30, 2008, compared to the approximately \$1,578,000 of general and administrative expenses incurred in the six months ended June 30, 2007, representing an increase of approximately \$337,000 or 21.4%. \$168,000 of this increase can be attributed to additional contributions required as a result of the findings of a forensic audit performed on the Manufacturing Industry Workers' Compensation Self-Insurance Trust Fund (the "Fund") of which the Company was a member from January 2000 through March 2006. The Company is no longer a member of the Fund. The Fund was established to enable the participating employers to self insure their workers' compensation liability exposure as provided for under the Workers' Compensation Laws of the State of New York. Under the terms of the agreement, the Company is jointly and severally liable for the expenses and obligations of the Fund and for the workers' compensation liability of all participating employers incurred while a member. The Company was advised that certain adjustments were necessary to comply with New York State Workers' Compensation Board regulatory guidelines for Group Self Insurance Trusts. The contributions previously charged have not been adequate to cover Fund expenses including future claims. As a result, the

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Company was advised that additional contributions of approximately \$168,000 are required, which the Company expensed in full during this period. There may be additional contributions necessary as a result of any outstanding residual liability for any given contribution year. The Company is accruing an additional \$5,000 per quarter for this potential liability. Additionally, the Company incurred increased costs to support our continued sales growth.

14

Operating Income

As a result of the foregoing factors, operating income was approximately \$65,000 and \$68,000 for the three and six months ended June 30, 2008 respectively. This represents a decrease of 70.2% and 83.9% compared to operating income of \$218,000 and \$423,000 respectively for the three and six month periods ended June 30, 2007.

Interest Expense, Net

Interest income for the three and six months ended June 30, 2008 was approximately \$22,000 and \$60,000 respectively, compared to \$0 for the three and six months ended June 30, 2007. This is a result of the temporary investment of certain net capital proceeds from the sale of the Company's common stock in 2007. Interest expense for the three and six months ended June 30, 2008 was \$64,000 and \$104,000 respectively, compared to approximately \$52,000 and \$106,000 for the three and six months ended June 30, 2007. The primary source of this interest expense is from the mortgages on the three buildings that we own. The increase for the three months ended June 30, 2008 compared to the three months ended June 30, 2007 is attributable to the interest on the mortgage on the building we purchased in February, 2008. As a result of equipment purchases, the Company has utilized \$160,000 of its Revolving Credit Facility and converted it into term loans.

Other Income

Other income during the three months ended June 30, 2008 was approximately \$6,000 compared to approximately \$34,000 for the three months ended June 30, 2007. This was primarily the result of the receipt of \$28,000 in 2007 which was previously written off as uncollectible in 2004.

Other income during the six months ended June 30, 2008 was approximately \$14,000 compared to approximately \$39,000 for the corresponding period one year ago.

Income Taxes

For the three and six months ended June 30, 2008, the Company recorded a current income tax expense of approximately \$92,000 and \$138,000 respectively, that was reduced by the realization of the deferred tax benefits of approximately \$70,000 and \$128,000.

Net Income

The Company reported net income of approximately \$7,000 for the three month period ended June 30, 2008 compared to net income of \$165,000 for the same period, in 2007. This decrease was primarily attributable to approximately \$200,000 of expenses incurred from an increase in the number of engineering and production personnel employed by the Company in response to both the increased orders received for the Company's products and the costs associated with the Company's expansion growth and new product development in the Nanomaterials, Energy, Solar and Semiconductor fields.

For the six month period ended June 30, 2008, the Company reported net income of approximately \$26,000 compared to net income of \$261,000 for the six months ended June 30, 2007. As previously discussed, the decreased net income in 2008 versus 2007 is attributable to the hiring of additional personnel and associated costs related to our increased order levels, expansion and product development as well as the audit assessment of \$168,000 for workers' compensation contributions for the years 2000 through 2006.

Liquidity and Capital Resources

As of June 30, 2008, the Company had aggregate working capital of approximately \$9,814,000 and cash and cash equivalents of \$3,168,000 compared to \$10,314,000 and \$5,110,000 at December 31, 2007, a decrease of \$500,000 and \$1,942,000 respectively. The decrease in cash and cash equivalents was primarily the result of funding the uncompleted contracts, increased by approximately \$1,398,000, an increase in accounts receivable of approximately \$746,000 partially offset by an increase in accounts payable of \$670,000.

Accounts receivable, net as of June 30, 2008 was \$2,498,000 compared to \$1,769,000 as of December 31, 2007. This increase is attributable to the timing of shipments and customer payments.

As of June 30, 2008 the Company's backlog was approximately \$4,017,000, a decrease of \$1,070,000 or 21.0% compared to \$5,087,000 at December 31, 2007. 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.

On April 22, 2008, the Company entered into a three year Modified and Restated Revolving Credit Agreement with Capital One, N.A., successor by merger to North Fork Bank pursuant to which the bank has agreed to make revolving loans to the Company of up to \$5 million until May 1, 2011, at which time it will be subject to renewal. The loan agreement amends and supersedes the Company's previous \$2 million revolving credit facility with the Bank. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR rate plus 2.00% or (ii) the bank's prime rate minus .25%. Borrowings are collateralized by the Company's assets.

On June 30, 2008, the Company entered into a Consolidation, Extension and Modification Agreement and Consolidated and Restated Mortgage note each with Capital One, N.A. The agreement consolidated various notes and mortgages relating to the property and building in Saugerties, New York into a single note in the principal sum of \$805,000 of which approximately \$17,000 represented additional borrowings incurred by the Company. Principal and interest payments are to be made in equal consecutive monthly installments of \$5,903.27 commencing on August 1, 2008 and continuing for 119 months, with a final balloon payment being due on July 1, 2018 equal to the remaining unpaid principal on the maturity date. The principal sum bears interest at a fixed annual rate of 6.20%. The Note is secured by a first priority mortgage lien on the premises, all of the Company's monies, deposits or other sums held by the Bank on deposit, the Agreement, an assignment of the leases and rents from the premises, a lien on

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

the Company's personal property, and \$500,000 of the proceeds of a life insurance policy which is owned by the Company and issued on the life of the Company's Chief Executive Officer, Leonard A. Rosenbaum.

The Company believes that based on its historical growth rate, its cash and cash equivalents position at June 30, 2008 and available credit facilities, the Company's funds at June 30, 2008 will be sufficient to meet its working capital and investment requirements for the next twelve months.

However, we anticipate the business will grow at a faster rate. This may require additional funding. For this reason, as well as other reasons that arise from time to time, we may consider raising capital through equity or debt financings. Any decision to raise additional capital, as well as the determination of the appropriate vehicle for doing so, will depend on market conditions, order levels, opportunities presented to us and other factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with the management of the Company, have determined that as of end of the period covered by this Report, the disclosure controls and procedures were and are effective.

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, 2008 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.

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

Item 1. Legal Proceedings.

None.

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.

Item 6. Exhibits and Reports Filed on Form 8-K

(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

(b) Reports on Form 8-K

None

18

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 14th day of August 2008.

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
Accounting Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
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*

* Filed herewith

Exhibit 31.1

Certifications of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Leonard A. Rosenbaum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVD Equipment Corporation;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 14, 2008

/s/ Leonard A. Rosenbaum

President, Chief Executive Officer and Director

21

Exhibit 31.2

Certifications of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Glen R. Charles, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVD Equipment Corporation;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 14, 2008

/s/ Glen R. Charles

Chief Financial Officer

Edgar Filing: CVD EQUIPMENT CORP - Form 10-Q

I, Leonard A. Rosenbaum, President and Chief Executive Officer of CVD Equipment Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending June 30, 2008 of CVD Equipment Corporation (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: August 14, 2008

/s/ Leonard A. Rosenbaum

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

23

Exhibit 32.2

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

I, Glen R. Charles, Chief Financial Officer of CVD Equipment Corporation, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the quarterly report on Form 10-Q for the period ending June 30, 2008 of CVD Equipment Corporation (the "Form 10-Q") fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CVD Equipment Corporation.

Dated: August 14, 2008

/s/ Glen R. Charles

Glen R. Charles
Chief Financial Officer
(Principal Financial Officer)

24