

CVD EQUIPMENT CORP  
Form 10-Q  
August 14, 2017

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**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, 2017**

**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)*  
**355 South Technology Drive**

**Central Islip, New York 11722**

*(Address of principal executive offices)*

**(631) 981-7081**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check 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 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 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,388,048 shares of Common Stock, \$0.01 par value at August 9, 2017.



**CVD EQUIPMENT CORPORATION AND SUBSIDIARY**

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## PART 1 – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(Unaudited)

|   | June 30,<br>2017    | December<br>31, 2016 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| Current Assets:   |                     |                      |
| Cash and cash equivalents   | \$21,477,068        | \$21,677,186         |
| Accounts receivable, net  | 1,852,047           | 607,522              |
| Costs and estimated earnings in excess of billings on contracts in progress | 3,027,086           | 2,596,518            |
| Inventories   | 3,101,557           | 3,286,539            |
| Other current assets  | 344,025             | 235,537              |
| <b>Total Current Assets</b>   | <b>29,801,783</b>   | <b>28,403,302</b>    |
| Property, plant and equipment, net  | 14,122,984          | 14,344,924           |
| Construction in progress  | 156,518             | 94,058               |
| Deferred income taxes   | 1,952,296           | 2,440,334            |
| Other assets  | 271,665             | 68,450               |
| Intangible assets, net  | 240,304             | 253,624              |
| <b>Total Assets</b>   | <b>\$46,545,550</b> | <b>\$45,604,692</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                 |                     |                      |
| Current Liabilities:  |                     |                      |
| Accounts payable  | \$1,173,384         | \$743,132            |
| Accrued expenses  | 2,121,702           | 1,942,818            |
| Current maturities of long-term debt  | 300,000             | 300,000              |
| Billings in excess of costs and estimated earnings on contracts in progress | 2,984,621           | 5,262,339            |
| Deferred revenue  | 98,509              | 77,633               |
| <b>Total Current Liabilities</b>  | <b>6,678,216</b>    | <b>8,325,922</b>     |
| Long-term debt, net of current portion                                      | 2,815,508           | 2,965,508            |
| <b>Total Liabilities</b>  | <b>9,493,724</b>    | <b>11,291,430</b>    |
| Commitments and Contingencies   | ----                | ----                 |

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|   |              |              |
|---|--------------|--------------|
| Stockholders' Equity  |              |              |
| Common stock - \$0.01 par value – 20,000,000 shares authorized; issued and outstanding, 6,381,200 at June 30, 2017 and 6,346,590 at December 31, 2016 | 63,812       | 63,466       |
| Additional paid-in-capital  | 24,588,783   | 24,131,474   |
| Retained earnings   | 12,399,231   | 10,118,322   |
| Total Stockholders' Equity  | 37,051,826   | 34,313,262   |
| <br>  |              |              |
| Total Liabilities and Stockholders' Equity  | \$46,545,550 | \$45,604,692 |

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

## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

(Unaudited)

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | June 30,           | 2016         | June 30,         | 2016         |
|  | 2017               |              | 2017             |              |
| Revenue  | \$10,829,709       | \$3,743,782  | \$20,480,326     | \$8,747,215  |
| Cost of revenue                                  | 6,419,255          | 3,249,540    | 11,898,737       | 6,719,862    |
| Gross profit                                     | 4,410,454          | 494,242      | 8,581,589        | 2,027,353    |
| Operating expenses                               |                    |              |                  |              |
| Research and development                         | 110,965            | 72,459       | 181,300          | 154,334      |
| Selling and shipping                             | 352,909            | 286,884      | 638,325          | 544,675      |
| General and administrative                       | 2,115,793          | 1,744,080    | 4,214,388        | 3,470,180    |
| Gain on settlement                               | --                 | (628,905 )   | --               | (628,905 )   |
| Total operating expenses                         | 2,579,667          | 1,474,518    | 5,034,013        | 3,540,284    |
| Operating income/(loss)                          | 1,830,787          | (980,276 )   | 3,547,576        | (1,512,931)  |
| Other income (expense)                           |                    |              |                  |              |
| Interest income                                  | 17,478             | 6,782        | 26,053           | 13,528       |
| Interest expense                                 | (17,607 )          | (22,462 )    | (35,244 )        | (42,455 )    |
| Other income                                     | -                  | --           | 439              | 4,448        |
| Total other (expense)                            | (129 )             | (15,680 )    | (8,752 )         | (24,479 )    |
| Income/(Loss) before income taxes                | 1,830,658          | (995,956 )   | 3,538,824        | (1,537,410)  |
| Income tax expense/(benefit)                     | 573,783            | (500,372 )   | 1,257,915        | (704,062 )   |
| Net income/(loss)                                | \$1,256,875        | \$(495,584 ) | \$2,280,909      | \$(833,348 ) |
| Basic income/(loss) per common share             | \$0.20             | \$(0.08 )    | \$0.36           | \$(0.13 )    |
| Diluted income/(loss) per common share           | \$0.20             | \$(0.08 )    | \$0.36           | \$(0.13 )    |
| Weighted average common shares Outstanding-basic | 6,370,244          | 6,301,983    | 6,309,308        | 6,257,563    |
| Net effect of potential common share issuance:   |                    |              |                  |              |
| Stock options                                    | 34,517             | --           | 33,205           | --           |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Weighted average common shares Outstanding-diluted | 6,404,761 | 6,301,983 | 6,342,513 | 6,257,563 |
|--|-----------|-----------|-----------|-----------|

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



## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

|  | Six Months Ended |              |
|--|------------------|--------------|
|  | June 30,         |              |
|  | 2017             | 2016         |
| Cash flows from operating activities:  |                  |              |
| Net income/(loss)  | \$2,280,909      | \$(833,348 ) |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities: |                  |              |
| Stock-based compensation expense   | 435,536          | 346,255      |
| Depreciation and amortization  | 417,730          | 425,308      |
| Deferred tax expense/(benefit)   | 488,038          | (632,992 )   |
| Provision for doubtful accounts  | 2,817            | 40,012       |
| Changes in operating assets and liabilities:   |                  |              |
| Accounts receivable, net   | (1,247,342 )     | (4,720,127 ) |
| Costs and estimated earnings in excess of billings on contracts in progress                        | (430,568 )       | 1,775,431    |
| Inventories  | 184,982          | (98,706 )    |
| Other current assets   | (109,056 )       | 172,178      |
| Increases/(decreases) in operating liabilities:  |                  |              |
| Accounts payable and accrued expenses  | 609,699          | (692,309 )   |
| Billings in excess of costs and estimated earnings on contracts in progress                        | (2,277,718 )     | 5,192,876    |
| Deferred revenue   | 20,877           | (280,893 )   |
| Total adjustments  | (1,905,005 )     | 1,527,033    |
| Net cash provided by operating activities  | 375,904          | 693,685      |
| Cash flows from investing activities:  |                  |              |
| Release of restricted cash   | --               | 200,000      |
| Capital expenditures   | (451,387 )       | (34,003 )    |
| Deposits   | 3,245            | 1,550        |
| Net cash (used in) investing activities  | (448,142 )       | 167,547      |
| Cash flows from financing activities:  |                  |              |
| Net proceeds from stock options exercised  | 22,120           | 462,000      |
| Payments of long-term debt   | (150,000 )       | (360,000 )   |
| Net cash (used in)/provided by financing activities  | (127,880 )       | 102,000      |
| Net (decrease)/increase in cash and cash equivalents   | (200,118 )       | 963,232      |
| Cash and cash equivalents at beginning of period   | 21,677,186       | 13,073,331   |
| Cash and cash equivalents at end of period   | \$21,477,068     | \$14,036,563 |
| Supplemental disclosure of cash flow information:  |                  |              |

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|                   |           |           |
|-------------------|-----------|-----------|
| Income taxes paid | \$401,800 | \$100,000 |
| Interest paid     | \$35,244  | \$42,455  |

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

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements for CVD Equipment Corporation and Subsidiaries (collectively, “the Company”) 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 disclosures 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, 2017 are not necessarily indicative of the results that can be expected for the year ending December 31, 2017.

The balance sheet as of December 31, 2016 has been derived from the audited consolidated financial statements at such date, but does not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, please refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements contained therein.

All material intercompany transactions have been eliminated in consolidation. In addition, certain reclassifications have been made to prior period consolidated financial statements to conform to the current year presentation.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition**

Product and service sales, including those based on time and materials type contracts, are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or

determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

Revenues from fixed price contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This “cost to cost” method is used because management considers it to be the best available measure of progress on these contracts.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs.

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

The liability, "Billings in excess of costs and estimated earnings on contracts in progress," represents amounts billed in excess of revenues recognized.

Research and Development

Research and development costs are expensed as incurred. Due to the highly technical nature of our projects, we use our technical staff in a dual role, and based on their contribution to the customer or research and development projects, their costs are charged accordingly to either cost of goods sold or research and development.

Recent Accounting Pronouncements

In May 2014, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which changes the criteria for recognizing revenue. The standard requires an entity which recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires a five-step process for recognizing revenues including identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction prices,

allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation. The Company is currently analyzing the impact of the standard on its contract portfolio by reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. The Company has made progress on its contract reviews and continues to evaluate the impact of the adoption of this standard on its consolidated financial statements, related disclosures and transition method. The Company does not believe the standard will have a material effect on its consolidated financial statements.

We believe there is no additional new accounting guidance adopted, but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

**NOTE 3: CONCENTRATION OF  
CREDIT RISK**

**Cash and cash equivalents**

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company places its cash equivalents with high credit-quality domestic financial institutions and invests its excess cash primarily in savings accounts, treasury bills and money market instruments. The Company performs periodic evaluations of the relative credit standing of all such institutions as it seeks to maintain stability and liquidity. Cash and cash equivalents at June 30, 2017 and December 31, 2016, exceeded the Federal Deposit Insurance Corporation ("FDIC") limits by approximately \$19,846,000 and \$20,157,000, respectively.

**Sales concentration**

Revenue to a single customer in any one period can exceed 10% of our total sales. During the three months ended June 30, 2017 and June 30, 2016, one customer represented approximately 66% and 53% respectively, of our revenues. During the six months ended June 30, 2017 and June 30, 2016 that same customer represented 68% and 38% respectively, of our revenues.

**Accounts receivable**

The Company sells products and services to various companies across several industries in the ordinary course of business. The Company performs ongoing credit evaluations to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience, evaluation of their credit history and review of the invoicing terms of the contract to determine the financial strength of its customers. The Company also maintains allowances for anticipated losses. The accounts receivable balance as of June 30, 2017 includes balances from three

customers that exceed 10% of the total.

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**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017****(Unaudited)****NOTE 4: CONTRACTS IN PROGRESS**

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

|   | June<br>30, 2017 | December<br>31, 2016 |
|---|------------------|----------------------|
| Costs incurred on contracts in progress                                     | \$7,417,135      | \$4,678,192          |
| Estimated earnings  | 16,467,264       | 10,733,826           |
|   | 23,884,399       | 15,412,018           |
| Billings to date  | (23,841,934)     | (18,077,839)         |
|   | \$42,465         | \$(2,665,821 )       |
| Included in accompanying balance sheets under the following captions:       |                  |                      |
| Costs and estimated earnings in excess of billings on contracts in progress | \$3,027,086      | \$2,596,518          |
| Billings in excess of costs and estimated earnings on contracts in progress | \$(2,984,621 )   | \$(5,262,339 )       |
|   | \$42,465         | \$(2,665,821 )       |

**NOTE 5: INVENTORIES**

Inventories consist of:

|                 | June 30,<br>2017 | December<br>31, 2016 |
|-----------------|------------------|----------------------|
| Raw materials   | \$2,834,616      | \$3,062,830          |
| Work-in-process | 225,048          | 159,482              |
| Finished goods  | 41,893           | 64,227               |
| Totals          | \$3,101,557      | \$3,286,539          |

NOTE 6: ACCOUNTS RECEIVABLE, NET

Accounts receivable are presented net of an allowance for doubtful accounts of approximately \$5,000 and \$2,000 as of June 30, 2017 and December 31, 2016, respectively. The allowance is based on prior experience and management's evaluation of the collectability of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in future economic conditions.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

**NOTE 7: DEBT**

The Company has a revolving credit facility with HSBC Bank, USA, N.A. (“HSBC”) providing up to \$7 million, although the Company has never utilized this facility. This credit facility remains available until September 1, 2018. The credit facility also contains certain financial covenants, all of which the Company was in compliance with at June 30, 2017 and December 31, 2016.

The Company has a loan agreement with HSBC which is secured by a mortgage against our Central Islip facility. The loan is payable in 120 consecutive equal monthly installments of principal of \$25,000 plus interest thereon and a final balloon payment upon maturity in March 2022. Interest accrues on the loan, at our option, at the variable rate of LIBOR plus 1.75% which was 2.97% and 2.52% at June 30, 2017 and December 31, 2016 respectively. The principal balances on the mortgage at June 30, 2017 and December 31, 2016 were approximately \$3.1 and \$3.3 million respectively.

**NOTE 8: STOCK-BASED COMPENSATION EXPENSE**

During the three and six months ended June 30, 2017 and June 30, 2016, the Company recorded compensation expense as part of selling and general administrative expense, of approximately \$219,000 and \$183,000 and \$436,000 and \$346,000 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. This expense was recorded based upon the guidance of ASC 718, “Compensation-Stock Compensation.”

**NOTE 9: INCOME TAXES**

The provision for income taxes includes the following:

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Six Months Ended June  
30,  
2017            2016

|                              |             |             |
|------------------------------|-------------|-------------|
| Current:                     |             |             |
| Federal                      | \$758,297   | \$(71,070 ) |
| State                        | 11,580      | --          |
| Total Current Provision      | 769,877     | (71,070 )   |
| Deferred:                    |             |             |
| Federal                      | \$488,038   | \$(632,992) |
| State                        | ----        | ----        |
| Total deferred               | 488,038     | (632,992)   |
| Income tax expense/(benefit) | \$1,257,915 | \$(704,062) |

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017****(Unaudited)**

## NOTE 9: INCOME TAXES (continued)

## Tax Rate Reconciliation

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory rate is as follows:

For

|  | Six Months Ended |             |
|--|------------------|-------------|
|  | June 30,         |             |
|  | 2017             | 2016        |
| Income tax expense/(benefit) at federal statutory rate [34%] | \$1,361,450      | \$(353,981) |
| State taxes  | 7,643            | --          |
| Change in other accruals                                     | 101              | (108,172)   |
| Difference between tax and book depreciation                 | 91,033           | (53,112 )   |
| Stock-based compensation                                     | (58,334 )        | (117,727)   |
| Domestic production activities deduction                     | (137,178 )       | --          |
| Net operating loss carryforward                              | (6,800 )         | --          |
| Provision for 2014 tax return true up                        | --               | (71,070 )   |
| Income tax expense/(benefit)                                 | \$1,257,915      | \$(704,062) |

Income taxes for the foreign entity, a wholly owned subsidiary, will be computed at the applicable tax rate in the country in which the Company operates. The foreign entity had a net loss during the current period. This net operating loss may result in future income tax benefits, however, because realization is uncertain at this time, a valuation reserve in the same amount has been established.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**(Unaudited)**

**NOTE 10: EARNINGS PER SHARE**

In accordance with ASC 260, 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.

Stock options to purchase 381,930 shares of common stock were outstanding and 146,930 were exercisable during the three and six months ended June 30, 2017. Stock options to purchase 159,730 shares were outstanding and 79,230 were exercisable during the three and six months ended June 30, 2016. For the three and six months ended June 30, 2017, options to purchase 34,517 and 33,205 shares were included in the diluted earnings per share calculation respectively. The balance of options outstanding at June 30, 2017 were not included as their effect would have been anti-dilutive. For the three and six months ended June 30, 2016, none of the outstanding options were included in the earnings per share calculation as their effect would have been anti-dilutive.

The potentially dilutive common shares from warrants and options are 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.

**NOTE 11: SEGMENT REPORTING**

The Company operates through two (2) segments, CVD and SDC. The CVD division, which operates out of Central Islip, New York, is utilized for silicon, silicon germanium, silicon carbide and gallium arsenide processes. SDC is the Company's ultra-high purity manufacturing division in Saugerties, New York. The Company evaluates performance based on several factors, of which the primary financial measure is income or (loss) before taxes.

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Three Months Ended June 30,

| <u>2017</u>     | CVD         | SDC         | Eliminations<br>* | Consolidated  |
|-----------------|-------------|-------------|-------------------|---------------|
| Revenue         | \$9,403,342 | \$1,779,980 | \$ (353,613 )     | \$ 10,829,709 |
| Pretax income   | 1,242,809   | 587,849     |                   | 1,830,658     |
| <br><u>2016</u> |             |             |                   |               |
| Revenue         | \$3,243,095 | \$581,710   | \$ (81,023 )      | \$3,743,782   |
| Pretax (loss)   | (758,035 )  | (237,921 )  |                   | (995,956 )    |

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**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017****(Unaudited)**

## NOTE 11: SEGMENT REPORTING (continued)

Six Months Ended June 30,

| <u>2017</u>   | CVD           | SDC          | Eliminations<br>* | Consolidated  |
|---------------|---------------|--------------|-------------------|---------------|
| Revenue       | \$ 17,985,006 | \$ 3,812,151 | \$ (1,316,831 )   | \$ 20,480,326 |
| Pretax income | 2,348,223     | 1,190,601    |                   | 3,538,824     |
| <u>2016</u>   |               |              |                   |               |
| Revenue       | \$ 7,335,877  | \$ 1,505,688 | \$ (94,350 )      | \$ 8,747,215  |
| Pretax (loss) | (1,363,640 )  | (173,770 )   |                   | (1,537,410 )  |

\*All elimination entries represent intersegment revenues eliminated in consolidation for external financial reporting.



**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*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. Past results are no guaranty future performance. You should not place undue reliance on any forward-looking statements, which speak only as of the dates they are made. When used with this Report, the words “believes,” “anticipates,” “expects,” “estimates,” “plans,” “intends,” “will” and similar expressions are intended to identify forward-looking statements.*

**Results of Operations****Three Months Ended June 30, 2017 vs. Three Months Ended June 30, 2016**

|                              | Three Months<br>Ended |                     |         |             |
|------------------------------|-----------------------|---------------------|---------|-------------|
|                              | June 30,<br>2017      | June<br>30,<br>2016 | Change  | %<br>Change |
| (In thousands)               |                       |                     |         |             |
| Revenue                      |                       |                     |         |             |
| CVD (net of eliminations)    | \$9,329               | \$3,241             | \$6,088 | 187.8       |
| SDC (net of eliminations)    | 1,501                 | 503                 | 998     | 198.4       |
| Total Revenue                | 10,830                | 3,744               | 7,086   | 189.3       |
|                              |                       |                     |         |             |
| Cost of Goods Sold           | 6,419                 | 3,250               | 3,160   | 97.2        |
|                              |                       |                     |         |             |
| Gross Profit                 | 4,411                 | 494                 | 3,917   | 792.9       |
| Gross Margin                 | 40.7 %                | 13.2 %              |         |             |
|                              |                       |                     |         |             |
| Research and development     | 111                   | 72                  | 39      | 54.2        |
| Selling and shipments        | 353                   | 287                 | 66      | 23.0        |
| General and administrative   | 2,116                 | 1,744               | 372     | 21.3        |
| Gain on settlement           | --                    | (629 )              | 629     | --          |
| Total operating expenses     | 2,580                 | 1,474               | 1,106   | 75.0        |
|                              |                       |                     |         |             |
| Operating income/(loss)      | 1,831                 | (980 )              | 2,811   | 286.8       |
|                              |                       |                     |         |             |
| Other (expense)              | --                    | (16 )               | (16 )   |             |
|                              |                       |                     |         |             |
| Income/(loss) before taxes   | 1,831                 | (996 )              | 2,827   | 283.7       |
|                              |                       |                     |         |             |
| Income tax expense/(benefit) | 574                   | (500 )              | 1,074   | 214.8       |
|                              |                       |                     |         |             |
| Net income/(loss)            | 1,257                 | (496 )              | 1,753   | 353.4       |
|                              |                       |                     |         |             |
| Net income/(loss) per share  |                       |                     |         |             |
| Basic and diluted            | 0.20                  | (0.08 )             | 0.28    |             |

**Revenue**

Our revenue for the three months ended June 30, 2017 was \$10.8 million compared to \$3.7 million for the three months ended June 30, 2016. This increase of \$7.1 million or 189.3% was attributable to the work performed on the orders that we have received over the past twelve months. One customer in the aerospace industry represented approximately 66% and 53% of our revenue for the three months ended June 30, 2017 and June 30, 2016, respectively. We are continuing to receive additional follow-on business from that customer as well as undertaking opportunities with new and other current customers. We expect that contracts or orders from a relatively limited number of customers will continue to account for a substantial portion of our business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If any of our significant customers do not place orders, or they substantially reduce, delay or cancel orders, we may not be able to replace the business in a timely manner or at all, which could have a material adverse effect on our results of operations and financial condition. The SDC division increased their revenue from outside customers by 198.4%. Certain large orders that had been previously delayed by customers were finalized.

**Gross Profit**

We generated a gross profit of \$4.4 million for the three months ended June 30, 2017 compared to a gross profit of \$0.5 million for the three months ended June 30, 2016. The gross margin for the three months ended June 30, 2017 was 40.7% compared to 13.2% for the three months ended June 30, 2016. The increased gross profit and gross margin was the result of a combination of greater overall revenue and product mix of orders being worked on.

**Research and Development, Selling, General and Administrative Expenses**

Internal research and development expenses for the three months ended June 30, 2017 was \$111,000 compared to \$72,000 for the three months ended June 30, 2016 as we are beginning to ramp our efforts of independently conducted research and development activities.

Selling and shipping expenses for each of the three months ended June 30, 2017 and 2016 were \$353,000 and \$287,000 respectively. The increase is primarily attributable to additional personnel costs related to CVD Materials, including its recently established CVD Tantaline ApS subsidiary, during the current period.

Our general and administrative expenses for the three months ended June 30, 2017 totaled \$2,116,000 compared to approximately \$1,726,000 during the three months ended June 30, 2016. This constitutes a 21.3% increase which is primarily as a result of the additional costs incurred from CVD Materials, including its recently established CVD Tantaline ApS subsidiary, during the current period.

**Gain on Settlement**

The Company has included in its financial statements for the three months ended June 30, 2016, the results of a negotiated reduction to legal fees and expenses previously accrued in connection with the settlement of the Taiwan Glass litigation. The final negotiated sum was \$1.1 million, resulting in a reduction of the amount that was previously billed and accrued and a gain on the statement of operations of \$629,000 during the period.

**Operating Income/(Loss)**

As a result of the increased revenues, we achieved income from operations of \$1.8 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 when we incurred a loss of \$1.0 million from operations.

**Income Taxes**

We incurred an income tax expense of \$574,000 for the three months ended June 30, 2017. For the three months ended June 30, 2016, we did not incur any current income tax expense, primarily as a result of the operating loss and timing differences.

**Net Income/(Loss)**

We reported net income of approximately \$1.3 million or \$0.20 per share basic and diluted for the three months ended June 30, 2017 compared to a net loss of approximately \$0.5 million or (\$0.08) per share basic and diluted for the three months ended June 30, 2016.

**Six Months Ended June 30, 2017 vs. Six Months Ended June 30, 2016**

|  | June 30,<br>2017 | June<br>30,<br>2016 | Change   | %<br>Change |
|--|------------------|---------------------|----------|-------------|
| (In thousands)                                   |                  |                     |          |             |
| Revenue  |                  |                     |          |             |
| CVD (net of eliminations)                        | \$17,908         | \$7,330             | \$10,578 | 144.3       |
| SDC (net of eliminations)                        | 2,572            | 1,417               | 1,155    | 81.5        |
| Total Revenue                                    | 20,480           | 8,747               | 11,733   | 134.1       |
| Cost of Goods Sold                               | 11,899           | 6,720               | 5,179    | 77.1        |
| Gross Profit                                     | 8,581            | 2,027               | 6,554    | 323.3       |
| Gross Margin                                     | 41.9 %           | 23.2 %              |          |             |
| Research and development                         | 181              | 154                 | 27       | 17.5        |
| Selling and shipping                             | 638              | 545                 | 93       | 17.1        |
| General and administrative                       | 4,214            | 3,470               | 744      | 21.4        |
| Gain on settlement                               | --               | (629 )              | 629      |             |
| Total operating expenses                         | 5,033            | 3,540               | 1,493    | 42.2        |
| Operating income/(loss)                          | 3,548            | (1,513)             | 5,061    | 334.5       |
| Other (expense)                                  | (9 )             | (24 )               | (15 )    | (62.5 )     |
| Income/(loss) before taxes                       | 3,539            | (1,537)             | 5,076    | 330.3       |
| Income tax expense/(benefit)                     | 1,258            | (704 )              | 1,962    | 278.7       |
| Net income/(loss)                                | 2,281            | (833 )              | 3,114    | 373.8       |
| Net income/(loss) per share<br>Basic and diluted | 0.36             | (0.13 )             | 0.49     |             |

**Revenue**

Revenue for the six months ended June 30, 2017 was \$20.5 million compared to \$8.7 million for the six months ended June 30, 2016, an increase of \$11.7 million or 134.1%. This increase was the result of the work performed on the increased orders that have been received. Our largest customer from which we have secured multiple orders represented \$13.7 million or approximately 68% of our revenue for the six months ended June 30, 2017 compared to \$3.3 million or approximately 38% of our revenue for the six months ended June 30, 2016 from that same customer. We expect that contracts or orders from a relatively limited number of customers will continue to account for a substantial portion of our business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If any of our significant customers do not place orders, or they substantially reduce, delay or cancel orders, we may not be able to replace the business in a timely manner or at all, which could have a material adverse effect on our results of operations and financial condition.

**Gross Profit**

For the six months ended June 30, 2017, we generated a gross profit of \$8.6 million resulting in a gross profit margin of 41.9% compared to a gross profit of \$2.0 million for the six months ended June 30, 2016, which resulted in a gross profit margin of 23.2%. The increased gross margin is primarily due to the product mix of orders being worked on and the increased revenues.

**Research and Development, Selling and General and Administrative Expenses**

Internal research and development expenses for the six months ended June 30, 2017 were \$181,000 compared to \$154,000 for the six months ended June 30, 2016, as we are beginning to ramp our efforts of independently conducted research and development activities.

Selling and shipping expenses for the six months ended June 30, 2017 and 2016 were \$638,000 and \$545,000, respectively. The increase is primarily attributable to the personnel costs related to CVD Materials, including its recently established Tantaline CVD ApS subsidiary.

General and administrative expenses totaled \$4.2 million and \$3.5 million for the six months ended June 30, 2017 and 2016, an increase of 21.4%. This increase is a result of the costs related to CVD Materials, including its recently established Tantaline CVD ApS subsidiary.

**Gain on settlement**

The Company has included in its financial statements for the six months ended June 30, 2016, the results of a negotiated reduction to legal fees and expenses previously accrued in connection with the settlement of the Taiwan Glass litigation. The final negotiated sum was \$1.1 million, resulting in a reduction of the amount that was previously billed and accrued and a gain on the statement of operations of \$629,000 during the period.

**Operating Income**



As a result of the increased revenues, we generated income from operations of \$3.5 million for the six months ended June 30, 2017 compared to a loss from operations of \$1.5 million for the six months ended June 30, 2016.

**Income Taxes**

For the six months ended June 30, 2017 we incurred current income tax expense of \$770,000 and deferred income tax expense of \$488,000 for an effective tax rate of 31.4% compared to the six months ended June 30, 2016, when we did not incur any current income tax expense, received a refund of \$71,000 as a result of an overpayment on the 2014 federal corporate tax return.

**Net Income/(Loss)**

We reported net income of \$2.4 million or \$0.37 per share basic and diluted for the six months ended June 30, 2017 compared to a net loss of \$0.8 million or (\$0.13) per share basic and diluted for the six months ended June 30, 2016.

**Inflation**

Inflation has not materially impacted the operations of our Company.

**Liquidity and Capital Resources**

As as of June 30, 2017 we had working capital of \$23.1 million compared to \$19.9 million at December 31, 2016, an increase of \$3.2 million primarily as a result of operations, and cash and cash equivalents of \$21.5 million compared to \$21.7 million at December 31, 2016, a decrease of \$.2 million.

Accounts receivable, net, as of June 30, 2017 was \$1.9 million compared to \$0.6 million at December 31, 2016. This increase is principally due to an increase in revenue, the timing of customer invoicing, shipments and customer payments on outstanding balances.

At June 30, 2017 the number of full time employees increased to 203 employees compared to 173 at December 31, 2016

We believe that our cash and cash equivalents position and cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the next twelve months.

We may also raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products. In addition, we may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. Any equity or equity-linked financing could be dilutive to existing shareholders.



**Off-Balance Sheet Arrangements.**

We have no off-balance sheet arrangements at this time.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures

We maintain 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 our 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 Quarterly Report on Form 10-Q (the "Report").

Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with our management, have determined that as of the end of the period covered by the Report on Form 10-Q, the disclosure controls and procedures were and are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosures.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act that occurred during the most recent fiscal quarter 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.

**CVD EQUIPMENT CORPORATION**

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**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.**

None.



## Item 6. Exhibits

The exhibits below are hereby furnished to the SEC as part of this report:

- 31.1\* Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated August 14, 2017.
- 31.2\* Certification of Glen R. Charles, Chief Financial Officer, dated August 14, 2017.
- 32.1\* Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated August 14, 2017, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 \* Certification of Glen R. Charles, Chief Financial Officer, dated August 14, 2017, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
  
- 101.1\*\* XBRL Instance.
  
- 101.SCH\*\* XBRL Taxonomy Extension Schema.
  
- 101.CAL\*\* XBRL Taxonomy Extension Calculation
  
- 101.DEF\*\* XBRL Taxonomy Extension Definition.
  
- 101.LAB\*\* XBRL Taxonomy Extension Labels.
  
- 101.PRE\*\* XBRL Taxonomy Extension Presentation.

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\*Filed herewith

\*\*Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise not subject to liability under these sections.





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 14<sup>th</sup> day of August 2017.

CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum  
Leonard A. Rosenbaum  
Chief Executive Officer, President and  
Chairman  
(Principal Executive Officer)

By: /s/ Glen R. Charles  
Glen R. Charles  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)

EXHIBIT INDEX

EXHIBIT

NUMBER DESCRIPTION

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