

CVD EQUIPMENT CORP
Form 10-Q
August 11, 2011

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, 2011

- 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)

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, 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).

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 5,834,725 shares of Common Stock, \$0.01 par value at August 5, 2011.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

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PART 1 – FINANCIAL INFORMATION
Item 1 – Financial Statements
CVD EQUIPMENT CORPORATION AND SUBSIDIARY
Consolidated Balance Sheets

| | June 30, 2011 (Unaudited) | December 31, 2010* |
|---|------------------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$21,714,398 | \$6,249,090 |
| Accounts receivable, net | 3,815,586 | 2,909,173 |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 1,532,799 | 1,658,689 |
| Inventories, net | 3,005,155 | 3,479,862 |
| Idle inventories | 1,150,000 | 1,150,000 |
| Deferred income taxes – current | 252,538 | 232,481 |
| Other current assets | 189,740 | 136,269 |
| Total Current Assets | 31,660,216 | 15,815,564 |
| Property, plant and equipment, net | 7,439,704 | 7,554,317 |
| Deferred income taxes – non-current | 686,155 | 780,288 |
| Other assets | 124,243 | 157,661 |
| Intangible assets, net | 54,144 | 58,310 |
| Total Assets | \$39,964,462 | \$24,366,140 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$276,071 | \$372,387 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 5,964,914 | 2,323,691 |
| Accounts payable and accrued expenses | 3,045,108 | 1,788,930 |
| Accrued professional fees – related party | 35,000 | 125,000 |
| Deferred revenue | 256,510 | 100,373 |
| Total Current Liabilities | 9,577,603 | 4,710,381 |
| Long-term debt, net of current portion | 3,121,164 | 3,396,446 |
| Total Liabilities | 12,698,767 | 8,106,827 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |
| Common stock - \$0.01 par value – 10,000,000 shares authorized; issued and outstanding, 5,829,225 at June 30, 2011 and 4,819,325 at December 31, 2010 | 58,292 | 48,193 |
| Additional paid-in-capital | 19,859,945 | 10,329,526 |
| Retained earnings | 7,347,458 | 5,881,594 |
| Total Stockholders' Equity | 27,265,695 | 16,259,313 |

| | | |
|--|--------------|--------------|
| Total Liabilities and Stockholders' Equity | \$39,964,462 | \$24,366,140 |
|--|--------------|--------------|

* Derived from audited financial statements for the year ended December 31, 2010 (see Form 10-K filed on March 07, 2011 with the Securities and Exchange Commission).

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue | \$ 7,507,717 | \$ 3,380,788 | \$ 13,713,417 | \$ 7,102,637 |
| Cost of revenue | 4,635,083 | 2,157,975 | 8,556,543 | 4,773,278 |
| Gross profit | 2,872,634 | 1,222,813 | 5,156,874 | 2,329,359 |
| Operating expenses | | | | |
| Selling and shipping | 235,730 | 215,312 | 522,249 | 426,967 |
| General and administrative | 1,420,267 | 836,580 | 2,521,034 | 1,769,763 |
| Related party – professional fees | 15,000 | 45,000 | 35,000 | 60,000 |
| Total operating expenses | 1,670,997 | 1,096,892 | 3,078,283 | 2,256,730 |
| Operating income | 1,201,637 | 125,921 | 2,078,591 | 72,629 |
| Other income (expense) | | | | |
| Interest income | 2,665 | 2,006 | 6,000 | 4,378 |
| Interest expense | (48,923) | (57,507) | (102,655) | (116,223) |
| Other income | 8,055 | 3,000 | 92,459 | 8,725 |
| Total other (expense) | (38,203) | (52,501) | (4,196) | (103,120) |
| Income (loss) before income taxes | 1,163,434 | 73,420 | 2,074,395 | (30,491) |
| Income tax expense (benefit) | 384,994 | (30,444) | 608,531 | (43,926) |
| Net income | \$ 778,440 | \$ 103,864 | \$ 1,465,864 | \$ 13,435 |
| Basic income per common share | \$ 0.15 | \$ 0.02 | \$ 0.29 | \$ (0.00) |
| Diluted income per common share | \$ 0.14 | \$ 0.02 | \$ 0.28 | \$ (0.00) |
| Weighted average common shares outstanding basic | 5,211,190 | 4,778,325 | 5,019,562 | 4,776,950 |
| Effect of potential common share issuance: | | | | |
| Stock options | 256,514 | 34,682 | 244,968 | 40,666 |
| Weighted average common shares outstanding diluted | 5,467,704 | 4,813,007 | 5,264,530 | 4,817,616 |

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

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

| | Six Months Ended | |
|---|------------------|--------------|
| | June 30, | |
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net income | \$ 1,465,864 | \$ 13,435 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation expense | 144,031 | 87,652 |
| Depreciation and amortization | 276,738 | 305,284 |
| Deferred tax expense (benefit) | 74,076 | (70,377) |
| Bad debt provision | 711 | (2,321) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (907,124) | 510,461 |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 125,890 | 1,660,411 |
| Inventories, net | 474,707 | (195,431) |
| Other current assets | (53,471) | (81,969) |
| Customer deposits | (24,478) | - |
| Increase (decrease) in operating liabilities: | | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 3,641,223 | - |
| Accounts payable and accrued expenses | 1,166,180 | (54,717) |
| Deferred revenue | 156,138 | (113,948) |
| Net cash provided by operating activities | 6,540,485 | 2,058,480 |
| Cash flows from investing activities: | | |
| Capital expenditures | (100,066) | (254,377) |
| Net cash (used in) investing activities | (100,066) | (254,377) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock (Note 9) | 9,391,967 | - |
| Net proceeds from stock options exercised | 4,520 | - |
| Payments of long-term debt | (371,598) | (181,535) |
| Net cash provided by (used in) financing activities | 9,024,889 | (181,535) |
| Net increase in cash and cash equivalents | 15,465,308 | 1,622,568 |
| Cash and cash equivalents at beginning of period | 6,249,090 | 3,119,731 |
| Cash and cash equivalents at end of period | \$ 21,714,398 | \$ 4,742,299 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | \$ 505,100 | \$ 13,338 |
| Interest paid | \$ 102,655 | \$ 116,223 |

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(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, 2011 are not necessarily indicative of the results that can be expected for the year ending December 31, 2011.

The balance sheet as of December 31, 2010 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. 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, 2010, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements in the December 31, 2010 Form 10-K.

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

Subsequent events have been evaluated through the filing date of this Quarterly Report on Form 10-Q.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Income Recognition

The Company recognizes revenues 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The asset, "Cost 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 and estimated earnings on uncompleted contracts," represents amounts billed in excess of revenues earned.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The Company is currently evaluating the impact of adoption of this accounting guidance on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05 "Presentation of Comprehensive Income." The updated guidance requires companies to disclose the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance does not affect how earnings per share is calculated or presented. The updated guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of adoption of this accounting guidance on its 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.

NOTE 3: CONCENTRATION OF CREDIT RISK

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 financial institutions and invests its excess cash primarily in certificates of deposit, treasury bills and money market instruments. The Company has established guidelines relative to credit ratings and maturities that seek to maintain stability and liquidity. From time to time these temporary cash investments may exceed the Federal Deposit

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

NOTE 3: CONCENTRATION OF CREDIT RISK (continued)

Insurance Corporation (FDIC) limits which at June 30, 2011 and December 31, 2010 were approximately \$2,062,000 and \$1,557,000, respectively. The Company sells products and services to various companies across several industries in the ordinary course of business. The Company assesses the financial strength of its customers and maintains allowances for anticipated losses.

NOTE 4: UNCOMPLETED CONTRACTS

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

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|------------------------------|----------------------|
| Costs incurred on uncompleted contracts | \$ 5,222,596 | \$ 2,089,096 |
| Estimated earnings | 5,827,146 | 2,935,315 |
| | 11,049,742 | 5,024,411 |
| Billings to date | (15,481,857) | (5,689,413) |
| | \$ (4,432,115) | \$ (665,002) |
| Included in accompanying balance sheets under the following captions: | | |
| Cost and estimated earnings in excess of billings on uncompleted contracts | \$ 1,532,799 | \$ 1,658,689 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | \$ (5,964,914) | \$ (2,323,691) |

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2011
 (Unaudited)

NOTE 5: INVENTORIES

Inventories consist of:

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|--------------------------------|------------------------------|----------------------|
| Raw materials | \$ 1,977,747 | \$ 2,010,820 |
| Work-in-process | 1,184,560 | 1,388,516 |
| Finished goods | 42,848 | 180,526 |
| Totals | 3,205,155 | 3,579,862 |
| Less: Reserve for obsolescence | (200,000) | (100,000) |
| | \$ 3,005,155 | \$ 3,479,862 |

During the six months ended June 30, 2011, the Company recorded certain inventory write-downs of \$560,000. The Company did not record any inventory write-down during the six months ended June 30, 2010.

Idle inventory includes \$1,150,000 of equipment returned from a terminated contract which was valued at the lower of cost or market. (See Note 12)

NOTE 6: FAIR VALUE MEASUREMENTS

On January 1, 2009, we implemented new accounting guidance, ASC 820, Fair Value Measurements and Disclosures, on a prospective basis for our non-financial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. The new guidance requires that we determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy and describes three levels of inputs that may be used to measure fair value as follows:

Level 1 inputs which include quoted prices in active markets for identical assets or liabilities.

Level 2 inputs which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

NOTE 6: FAIR VALUE MEASUREMENTS (continued)

Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The following table summarizes, for each major category of assets and liabilities, the respective fair value and the classification by level of input within the fair value hierarchy:

| Description | June 30, 2011 | | | Total | December 31, 2010 | | | Total |
|-------------------|---------------|-----------|-----------|--------------|-------------------|-----------|-----------|--------------|
| | Level (1) | Level (2) | Level (3) | | Level (1) | Level (2) | Level (3) | |
| Assets: | | | | | | | | |
| Cash equivalents | \$ 3,091,553 | \$ --- | \$ --- | \$ 3,091,553 | \$ 3,371,346 | \$ --- | \$ --- | \$ 3,371,346 |
| Total Liabilities | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- | \$ --- |

NOTE 7: BAD DEBTS

Accounts receivable are presented net of an allowance for doubtful accounts of \$20,150 and \$19,439 as of June 30, 2011 and December 31, 2010, 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.

NOTE 8: LONG-TERM DEBT

On April 22, 2008, the Company entered into a three year Modified and Restated Revolving Credit Agreement (the "Credit Agreement") with Capital One, N.A. ("Capital One" as the "Bank") as successor to North Fork Bank, pursuant to which the Bank agreed to make revolving loans to the Company of up to \$5 million until May 1, 2011. Interest on the unpaid principal balance on this facility accrued at either (i) the LIBOR rate plus 2.00% or (ii) the Bank's prime rate minus .25%. This agreement contained certain financial and other covenants. Borrowings were collateralized by the Company's assets.

The amount available under the Credit Agreement was \$5,000,000 as of June 30, 2011. As of June 30, 2011, the Company was in full compliance with the terms of the Credit Agreement.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

NOTE 8: LONG-TERM DEBT (continued)

On May 9, 2011, the Company and the Bank agreed to an extension of the Credit Agreement until August 1, 2011, on the same terms and conditions as previously agreed to, during which time it intends to negotiate a new agreement. On August 1, 2011, the Company let this Credit Agreement, which had no borrowings outstanding, expire.

On August 5, 2011, the Company entered into a \$9.1 million credit agreement with HSBC Bank, USA, secured by substantially all of the Company's personal property. The agreement consists of a \$7 million revolving credit loan and a \$2.1 million five (5) year term loan. The revolving credit facility permits the Company to borrow on a revolving basis until August 5, 2014. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR Rate plus 1.75% or (ii) the bank's prime rate minus .50%. The term loan is being used to pay off the existing mortgages currently held by Capital One Bank, NA. Interest on the unpaid principal balance accrues at a fixed rate of 3.045%. Borrowings under this term loan are additionally collateralized by \$1 million, provided that, so long as no event of default has occurred and is then continuing, the bank will release \$200,000 of the collateral on each anniversary of the closing date. The credit agreement also contains certain financial covenants.

NOTE 9: STOCK-BASED COMPENSATION EXPENSE

On May 27, 2011, the Company completed a public offering of 967,950 shares of common stock at \$10.50 per share. The net proceeds of \$9,391,967 will be used for general corporate purposes, including working capital.

During the three and six months ended June 30, 2011 and June 30, 2010, as per ASC 718, Stock Compensation, the Company recorded as part of selling and general administrative expense, approximately \$75,000 and \$144,000 and \$44,000 and \$88,000 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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2011
 (Unaudited)

NOTE 10: INCOME TAXES

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

| | 2011 | Six Months Ended June 30, 2010 |
|------------------------------|------------|-----------------------------------|
| Current: | | |
| Federal | \$ 457,042 | \$ 17,151 |
| State | 77,413 | 9,300 |
| Total Current Provision | 534,455 | 26,451 |
| Deferred: | | |
| Federal | \$ 101,857 | \$ (47,257) |
| State | (27,781) | (23,120) |
| Total deferred (benefit) | 74,076 | (70,377) |
| Income tax expense (benefit) | \$ 608,531 | \$ (43,926) |

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed. Adjustments for differences between our tax provisions and tax returns are recorded when identified, which is generally in the third or fourth quarter of our subsequent year.

NOTE 11: EARNINGS PER SHARE

As per 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 403,550 shares of common stock were outstanding and 334,550 were exercisable during the three and six months ended June 30, 2011. Stock options to purchase 442,550 shares were outstanding and 351,775 were exercisable during the three and six months ended June 30, 2010. During the six months ended June 30, 2010, potentially dilutive shares of 63,807 were not included in the computation of diluted earnings per share because their effects would have been antidilutive. These securities may be dilutive to the earnings per share calculation in the future.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

NOTE 11: EARNINGS PER SHARE (continued)

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.

Note 12: LEGAL PROCEEDINGS

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. (“Taiwan Glass”) and Mizuho Corporate Bank (“Mizuho”) in the United States District Court for the Southern District of New York. By that action, the Company seeks monetary damages (\$5,816,000) against Taiwan Glass for breach of contract and against Mizuho for failing to pay the second installment on a letter of credit issued by Mizuho. The action as against Mizuho has been subsequently dismissed.

The Company believes that Taiwan Glass has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by the Company. Taiwan Glass has interposed an answer and counterclaims denying these allegations and is seeking unspecified monetary damages. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims interposed by Taiwan Glass.

As of June 30, 2011, Taiwan Glass has not yet granted permission to allow the Company to use or sell most of the returned equipment (\$1,150,000) due to the pending litigation. Management has reclassified the returned equipment as Idle Inventories, net as of June 30, 2011. The Idle Inventories has been assigned a carrying value using the lower of cost or market.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Note 13 SEGMENT REPORTING

The Company operates through (3) segments, CVD, SDC and Conceptronic. The CVD division 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. Conceptronic is a manufacturer of Surface Mount Technology equipment. The respective accounting policies of CVD, SDC and Conceptronic are the same as those described in the summary of significant accounting policies (see Note 2). The Company evaluates performance based on several factors, of which the primary financial measure is income or (loss) before taxes.

| Three Months | | | | | |
|----------------------|--------------|-------------|--------------|----------------|--------------|
| Ended June 30, | | | | | |
| 2011 | CVD | SDC | Conceptronic | Eliminations * | Consolidated |
| Revenue | \$6,203,718 | \$1,652,531 | \$278,748 | \$(627,280) | \$7,507,717 |
| Pretax income | 851,644 | 304,802 | 6,988 | | 1,163,434 |
| 2010 | | | | | |
| Revenue | \$2,664,359 | \$459,339 | \$458,365 | \$(201,275) | \$3,380,780 |
| Pretax income (loss) | 242,845 | (249,589) | 80,164 | | 73,420 |
| Six Months | | | | | |
| Ended June 30, | | | | | |
| 2011 | CVD | SDC | Conceptronic | Eliminations * | Consolidated |
| Revenue | \$11,708,828 | \$2,685,678 | \$485,413 | \$(1,166,502) | \$13,713,417 |
| Pretax income (loss) | 1,947,090 | 363,957 | (236,652) | | 2,074,395 |
| 2010 | | | | | |
| Revenue | \$5,115,807 | \$1,857,697 | \$667,874 | \$(538,741) | \$7,102,637 |
| Pretax (loss) income | (75,890) | (75,662) | 121,061 | | (30,491) |

*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.

Results of Operations

Three and Six Months Ended June 30, 2011 vs. Three and Six Months Ended June 30, 2010

Revenue

Revenue for the three and six month periods ended June 30, 2011 was approximately \$7,508,000 and \$13,713,000 respectively, as compared to \$3,381,000 and \$7,103,000 for the three and six month periods ended June 30, 2010, an increase 122.1% and 93.1%, respectively. The increase is due to the conversion into revenue of the higher order levels we started to receive beginning with the second half of 2010.

Gross Profit

During the three and six month periods ended June 30, 2011, we generated gross profits of approximately \$2,873,000 and \$5,157,000, respectively, resulting in gross profit margins of 38.3% and 37.6% as compared to the three and six month periods ended June 30, 2010 where we generated gross profits of approximately \$1,223,000 and \$2,329,000, respectively, resulting in gross profit margins of 36.2% and 32.8%. The increase in gross profit margin is primarily attributable to our continuing successful efforts in engineering and production to achieve greater efficiencies in the use of our labor costs and the utilization of volume purchase discounts on materials ordered.

Selling, General and Administrative Expenses

Selling and shipping expenses for the three and six months ended June 30, 2011 were approximately \$236,000 and \$522,000 respectively, or 3.1% and 3.8% of our revenue compared to \$215,000 and 427,000 respectively or 6.6% and 6.0% of our revenue for the three and six months ended June 30, 2010. Certain selling and shipping expenses such as commissions and freight vary from period to period due to the timing of the shipments of systems. We have also hired additional personnel and attended more trade shows during the current three and six month periods compared to prior periods and.

We incurred approximately \$1,435,000 and \$2,556,000 of general and administrative expenses or 19.1% and 18.6% of our revenue for the three and six months ended June 30, 2011, compared to approximately \$882,000 and \$1,830,000 or 26.1% and 25.8% of our revenue during the three and six months ended June 30, 2010. Although, we incurred greater overall general and administrative costs during the current three and six month periods as a result of additional personnel and legal fees, the decrease in percentage of revenue in 2011 versus 2010 is primarily attributable to general and administrative costs being allocated over a larger revenue stream.

Operating Income

As a result of the foregoing factors, operating income was approximately \$1,202,000 and \$2,079,000 for the three and six months ended June 30, 2011 compared to operating income of approximately \$126,000 and \$73,000 for the three and six months ended June 30, 2010, increases of 854.0% and 2,747.9% respectively. The increase in operating income in 2011 versus the same period in 2010 is directly attributable to the increased revenue with increased gross margins during the current three and six month periods.

Interest Expense, Net

Interest income for the three and six months ended June 30, 2011 was approximately \$3,000 and \$6,000 respectively compared to approximately \$2,000 and \$4,000 for the three and six months ended June 30, 2010. Interest expense for the three and six months ended June 30, 2011 was approximately \$49,000 and \$103,000 compared to approximately \$58,000 and \$116,000 for the three and six months ended June 30, 2010. The primary sources of this interest expense are the mortgages on the three buildings that we own.

Income Taxes

For the six months ended June 30, 2011, we recorded approximately \$534,000 of current income tax expense and \$74,000 of deferred tax expense. For the six months ended June 30, 2010, we recorded a current income tax expense of approximately \$26,000 that was reduced by the recognition of deferred tax benefits of approximately \$70,000 which provided a net tax benefit for that period.

Net Income

For the foregoing reasons, we reported net income of approximately \$778,000 and \$1,466,000 for the three and six months ended June 30, 2011 compared to net income of approximately \$104,000 and \$13,000 for the three and six month periods ended June 30, 2010.

Liquidity and Capital Resources

As of June 30, 2011, we had aggregate working capital of approximately \$22,083,000 and cash and cash equivalents of \$21,714,000, compared to \$11,105,000 and \$6,249,000 at December 31, 2010, an increase of \$10,978,000 and \$15,465,000, respectively. The increase in working capital and cash and cash equivalents was primarily the result of receiving approximately \$9,392,000 net proceeds from the issuance of 967,950 shares of our common stock at \$10.50 per share less \$771,000 of underwriting and other costs in our public offering and advance payments on several larger orders from customers.

Accounts receivable, net, as of June 30, 2011 was \$3,816,000 compared to \$2,909,000 as of December 31, 2010. This increase is primarily attributable to the timing of shipments and customer payments.

As of June 30, 2011, our backlog was approximately \$22,208,000, an increase of \$12,264,000, or 123.3%, compared to \$9,944,000 at December 31, 2010. During the six months ended June 30, 2011, we received approximately \$24,600,000 in new orders. Timing for completion of the backlog varies depending on the product mix and can be as long as two years. Included in the backlog are all accepted purchase orders with the exception of those that are included in percentage-of-completion. Order backlog is usually a reasonable management tool to indicate expected revenues and projected profits; however, it does not provide an assurance of future achievement of revenues or profits as order cancellations or delays are possible.

Revolving Credit Facility and Borrowings

On April 22, 2008, we entered into a three year Modified and Restated Revolving Credit Agreement with Capital One, N.A. ("Capital One" as the "Bank") as successor to North Fork Bank, pursuant to which the Bank agreed to make revolving loans to us of up to \$5 million until May 1, 2011, at which time it became subject to renewal. 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 with which we are in compliance as of June 30, 2011. Borrowings are collateralized by certain assets as defined under the Agreement.

On May 9, 2011 the Company and the Bank agreed to an extension of the Credit Agreement until August 1, 2011, on the same terms and conditions as previously agreed to.

On August 1, 2011, the Company let this Credit Agreement, which had no borrowings outstanding, expire.

On August 5, 2011, the Company entered into a \$9.1 million credit agreement with HSBC Bank, USA, secured by substantially all of the Company's personal property. The agreement consists of a \$7 million revolving credit loan and a \$2.1 million five (5) year term loan. The revolving credit facility permits the Company to borrow on a revolving basis until August 5, 2014. Interest on the unpaid principal balance on this facility accrues at either (i) the LIBOR Rate plus 1.75% or (ii) the bank's prime rate minus .50%. The term loan is being used to pay off the existing mortgages currently held by Capital One Bank, NA. Interest on the unpaid principal balance accrues at a fixed rate of 3.045%. Borrowings under this term loan are collateralized by \$1 million, provided that, so long as no event of default has occurred and is then continuing, the bank will release \$200,000 of the collateral on each anniversary of the closing date. The credit agreement also contains certain financial covenants.

We believe we have an ample amount of cash, positive operating cash-flow and available credit facilities at June 30, 2011, to meet our working capital and investment requirements for the next twelve months.

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.

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. (“Taiwan Glass”) and Mizuho Corporate Bank (“Mizuho”) in the United States District Court for the Southern District of New York. By that action, the Company seeks monetary damages (\$5,816,000) against Taiwan Glass for breach of contract and against Mizuho for failing to pay the second installment on a letter of credit issued by Mizuho. The action as against Mizuho has been subsequently dismissed.

The Company believes that Taiwan Glass has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by the Company. Taiwan Glass has interposed an answer and counterclaims denying these allegations and is seeking unspecified monetary damages. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims interposed by Taiwan Glass.

As of June 30, 2011, Taiwan Glass has not yet granted permission to allow the Company to use or sell most of the returned equipment (\$1,150,000) due to the pending litigation. Management has reclassified the returned equipment as Idle Inventories, net as of June 30, 2011. The Idle Inventories has been assigned a carrying value using the lower of cost or market.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

None.

Item 5. Other Information.

None.

Item 6. Exhibits

(a) Exhibits filed with this report:

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

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

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

101.INS** 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

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

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 11th day of August 2011.

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 * |
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* Filed herewith

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