

CVD EQUIPMENT CORP  
Form 10-Q  
November 15, 2010

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

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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 September 30, 2010

- 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

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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).

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: 4,819,325 shares of Common Stock, \$0.01 par value as of November 12, 2010.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Index

Part I - Financial Information

Item 1 - Financial Statements (Unaudited)

Consolidated Balance Sheets at September 30, 2010 (Unaudited) and December 31, 2009 2

Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2010 and 2009 3

Consolidated Statements of Cash Flows (Unaudited) for the three months and nine ended September 30, 2010 and 2009 4

Notes to Unaudited Consolidated Financial Statements 5

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 13

Item 3 – Quantitative and Qualitative Disclosures About Market Risk 16

Item 4T - Controls and Procedures 16

Part II - Other Information 17

Item 1 - Legal Proceedings 17

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds 17

Item 3 – Defaults Upon Senior Securities 17

Item 4 – (Removed and Reserved) 18

Item 5 - Other Information 18

Item 6 - Exhibits and Reports Filed on Form 8-K 18

Signatures 19

Exhibit Index 20

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

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

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

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

|                                                                                                        | September 30, 2010<br>(Unaudited) | December 31,<br>2009* |
|--------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------|
| <b>ASSETS</b>                                                                                          |                                   |                       |
| <b>Current Assets:</b>                                                                                 |                                   |                       |
| Cash and cash equivalents                                                                              | \$ 4,406,418                      | \$ 3,119,731          |
| Accounts receivable, net                                                                               | 2,712,828                         | 2,130,196             |
| Cost and estimated earnings in excess of billings on uncompleted contracts                             | 769,950                           | 2,708,084             |
| Inventories                                                                                            | 4,751,332                         | 4,418,138             |
| Deferred income taxes – current                                                                        | 256,349                           | 378,412               |
| Other current assets                                                                                   | 257,435                           | 213,593               |
| <b>Total Current Assets</b>                                                                            | <b>13,154,312</b>                 | <b>12,968,154</b>     |
| Property, plant and equipment, net                                                                     | 7,594,583                         | 7,591,363             |
| Deferred income taxes – non-current                                                                    | 810,526                           | 711,293               |
| Other assets                                                                                           | 198,782                           | 327,968               |
| Intangible assets, net                                                                                 | 60,408                            | 66,213                |
| <b>Total Assets</b>                                                                                    | <b>\$ 21,818,611</b>              | <b>\$ 21,664,991</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                            |                                   |                       |
| <b>Current Liabilities:</b>                                                                            |                                   |                       |
| Current maturities of long-term debt                                                                   | \$ 372,197                        | \$ 368,041            |
| Accounts payable and accrued expenses                                                                  | 1,939,868                         | 1,820,890             |
| Accrued professional fees – related party                                                              | 90,000                            | 64,521                |
| Deferred revenue                                                                                       | 104,008                           | 151,514               |
|                                                                                                        | 2,506,073                         | 2,404,966             |
| Long-term debt, net of current portion                                                                 | 3,490,744                         | 3,768,824             |
| <b>Total liabilities</b>                                                                               | <b>5,996,817</b>                  | <b>6,173,790</b>      |
| Commitments and contingencies                                                                          | -                                 | -                     |
| <b>Stockholders' Equity</b>                                                                            |                                   |                       |
| Common stock - \$0.01 par value – 10,000,000 shares                                                    |                                   |                       |
| authorized; issued and outstanding, 4,811,825 at September 30, 2010 and 4,761,825 at December 31, 2009 | 48,118                            | 47,618                |
| Additional paid-in-capital                                                                             | 10,267,418                        | 10,093,761            |

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|                                            |               |               |
|--------------------------------------------|---------------|---------------|
| Retained earnings                          | 5,506,256     | 5,349,822     |
| Total Stockholders' Equity                 | 15,821,792    | 15,491,201    |
| Total liabilities and stockholders' equity | \$ 21,818,611 | \$ 21,664,991 |

\* Derived from audited financial statements for the year ended December 31, 2009 (see Annual Report on Form 10-K filed on March 31, 2010 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<br>September 30, |              | Nine Months Ended<br>September 30, |               |
|--------------------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
|                                            | 2010                                | 2009         | 2010                               | 2009          |
| Revenue                                    | \$ 4,032,389                        | \$ 3,556,782 | \$ 11,135,026                      | \$ 10,983,980 |
| Cost of revenue                            | 2,612,352                           | 2,123,899    | 7,385,630                          | 7,493,649     |
| Gross profit                               | 1,420,037                           | 1,432,883    | 3,749,396                          | 3,490,331     |
| Operating expenses                         |                                     |              |                                    |               |
| Selling and shipping                       | 231,515                             | 163,474      | 658,482                            | 525,048       |
| General and administrative                 | 1,008,895                           | 1,061,970    | 2,778,658                          | 2,791,753     |
| Related party – professional fees          | 30,000                              | 25,000       | 90,000                             | 75,000        |
| Total operating expenses                   | 1,270,410                           | 1,250,444    | 3,527,140                          | 3,391,801     |
| Operating income                           | 149,627                             | 182,439      | 222,256                            | 98,530        |
| Other income (expense)                     |                                     |              |                                    |               |
| Interest income                            | 1,467                               | 6,246        | 5,845                              | 28,835        |
| Interest expense                           | (55,700 )                           | (61,647 )    | (171,923 )                         | (188,630 )    |
| Other income                               | 2,715                               | 10,403       | 11,440                             | 22,093        |
| Total other (expense)                      | (51,518 )                           | (44,998 )    | (154,638 )                         | (137,702 )    |
| Income (loss) before income taxes          | 98,109                              | 137,441      | 67,618                             | (39,172 )     |
| Income tax benefit (expense)               | 44,890                              | (34,311 )    | 88,816                             | 66,504        |
| Net income                                 | \$ 142,999                          | \$ 103,130   | \$ 156,434                         | \$ 27,332     |
| Basic income per common share              | \$ 0.03                             | \$ 0.02      | \$ 0.03                            | \$ 0.01       |
| Diluted income per common share            | \$ 0.03                             | \$ 0.02      | \$ 0.03                            | \$ 0.01       |
| Weighted average common shares outstanding |                                     |              |                                    |               |
| basic                                      | 4,784,142                           | 4,761,100    | 4,779,347                          | 4,760,503     |
| Effect of potential common share issuance: |                                     |              |                                    |               |
| Stock options                              | 15,448                              | 45,846       | 16,976                             | 43,787        |

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|                                                          |           |           |           |           |
|----------------------------------------------------------|-----------|-----------|-----------|-----------|
| Weighted average common<br>shares outstanding<br>diluted | 4,799,590 | 4,806,946 | 4,796,323 | 4,804,290 |
|----------------------------------------------------------|-----------|-----------|-----------|-----------|

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



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

|                                                                                             | Nine Months Ended<br>September 30, |              |
|---------------------------------------------------------------------------------------------|------------------------------------|--------------|
|                                                                                             | 2010                               | 2009         |
| Cash flows from operating activities                                                        |                                    |              |
| Net income                                                                                  | \$ 156,434                         | \$ 27,332    |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |              |
| Stock-based compensation expense                                                            | 127,258                            | 126,868      |
| Depreciation and amortization                                                               | 445,293                            | 437,354      |
| Deferred tax benefit                                                                        | 22,830                             | (157,300 )   |
| Bad debt provision                                                                          | 806                                | (12,936 )    |
| Changes in operating assets and liabilities:                                                |                                    |              |
| Accounts receivable                                                                         | (583,438 )                         | 1,439,422    |
| Cost and estimated earnings in excess of billings on uncompleted contracts                  | 1,938,134                          | (1,843,898 ) |
| Inventories                                                                                 | (333,194 )                         | 17,259       |
| Other current assets                                                                        | (43,842 )                          | (9,319 )     |
| Other assets                                                                                |                                    | 856          |
| Deferred revenue                                                                            | (47,505 )                          | 29,363       |
| Accounts payable and accrued expenses                                                       | 144,458                            | (484,112 )   |
| Net cash provided by (used in) operating activities                                         | 1,827,234                          | (429,111 )   |
| Cash flows from investing activities:                                                       |                                    |              |
| Capital expenditures                                                                        | (313,522 )                         | (258,435 )   |
| Net cash (used in) investing activities                                                     | (313,522 )                         | (258,435 )   |
| Cash flows from financing activities:                                                       |                                    |              |
| Payments of long-term debt                                                                  | (273,925 )                         | (258,470 )   |
| Net proceeds from stock options exercised                                                   | 46,900                             | ----         |
| Net cash (used in) financing activities                                                     | (227,025 )                         | (258,470 )   |
| Net increase (decrease) in cash and cash equivalents                                        | 1,286,687                          | (946,016 )   |
| Cash and cash equivalents at beginning of period                                            | 3,119,731                          | 5,721,369    |
| Cash and cash equivalents at end of period                                                  | \$ 4,406,418                       | \$ 4,775,353 |
| Supplemental disclosure of cash flow information                                            |                                    |              |
| Income taxes paid                                                                           | \$ 40,048                          | \$ 62,975    |
| Interest paid                                                                               | \$ 171,923                         | \$ 188,630   |

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

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

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that can be expected for the year ending December 31, 2010.

The balance sheet as of December 31, 2009 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, 2009, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements in the December 31, 2009 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.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In January 2010, the FASB issued updated accounting guidance related to fair value measurements and disclosures which amends and clarifies existing disclosure requirements. This updated accounting guidance requires new disclosures related to amounts transferred into and out of Level 1 and 2 fair value measurements as well as separate disclosures of purchases, sales, issuances, and settlements related to amounts reported as Level 3 fair value measurements. This guidance also clarifies existing fair value disclosure requirements related to the level of disaggregation and the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2009, except for the separate disclosures of purchases, sales, issuances, and settlements related to amounts reported as Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

ASU 2009-14 amends the scope of ASC 985, Software, 605, "Revenue Recognition" (formerly AICPA Statement of Position 97-2, Software Revenue Recognition), to exclude certain tangible products and related deliverables that contain embedded software from the scope of this guidance. Instead, the excluded products and related deliverables must be evaluated for separation, measurement, and allocation under the guidance of ASC 605-25, as amended by ASU 2009-13. The amended guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. An entity may elect retrospective application to all revenue arrangements for all periods presented using the guidance in ASC 250, Accounting Changes and Error Corrections.

Entities must adopt the amendments resulting from both of these ASUs in the same period using the same transition method, where applicable. Management is reviewing ASU 2009-13 and ASU 2009-14 for applicability to the Company's revenue recognition policies. The Company will adopt this standard for our fiscal year beginning January 1, 2011.

In February 2010, the FASB issued an additional accounting pronouncement that amended certain requirements for subsequent events (FASB ASC Topic 855), which requires an SEC filer or a conduit bond obligor to evaluate subsequent events through the date the financial statements are available to be issued and removes the previous requirement to disclose the date through which subsequent events have been evaluated. The amended amendments were effective on issuance of the final pronouncement. The adoption of this pronouncement had no effect on our consolidated financial statements.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASU 2010-17 provides guidance on defining a milestone under Topic 605 and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones that should be evaluated individually. The Company will adopt this standard for our fiscal year beginning January 1, 2011.

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 Insurance Corporation limit. The amount at risk at September 30, 2010 and December 31, 2009 was approximately \$2,906,000 and \$377,000, 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:

|                                                                            | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|----------------------------------------------------------------------------|--------------------------------------|----------------------|
| Costs incurred on uncompleted contracts                                    | \$ 1,416,654                         | \$ 1,504,137         |
| Estimated earnings                                                         | 1,707,559                            | 2,429,770            |
|                                                                            | 3,124,213                            | 3,933,907            |
| Billings to date                                                           | (2,354,263)                          | (1,225,823)          |
| Cost and estimated earnings in excess of billings on uncompleted contracts | \$ 769,950                           | \$ 2,708,084         |

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

## NOTE 5: INVENTORIES

Inventories consist of:

|                 | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|-----------------|--------------------------------------|----------------------|
| Raw materials   | \$ 1,870,208                         | \$ 1,848,620         |
| Work-in-process | 2,644,847                            | 2,388,115            |
| Finished goods  | 236,277                              | 181,403              |
|                 | \$ 4,751,332                         | \$ 4,418,138         |

## NOTE 6: FAIR VALUE MEASUREMENTS

On January 1, 2009, the Company 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.

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      | September 30, 2010 |           |           |              | December 31, 2009 |           |           |             |
|------------------|--------------------|-----------|-----------|--------------|-------------------|-----------|-----------|-------------|
|                  | Level (1)          | Level (2) | Level (3) | Total        | Level (1)         | Level (2) | Level (3) | Total       |
| Assets:          |                    |           |           |              |                   |           |           |             |
| Cash equivalents | \$ 1,613,939       | ---       | \$ ---    | \$ 1,613,939 | \$ 1,795,622      | \$ ---    | \$ ---    | \$1,795,622 |



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

NOTE 7: BAD DEBTS

Accounts receivable are presented net of an allowance for doubtful accounts of \$57,922 and \$57,116 as of September 30, 2010 and December 31, 2009, 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: REVOLVING CREDIT AGREEMENT

On April 22, 2008, the Company entered into a three year Modified and Restated Revolving Credit Agreement (the "Revolving Credit Agreement") with Capital One, N.A. (the "Bank") as successor to North Fork Bank, pursuant to which the Bank has agreed to make revolving loans to the Company of up to \$5 million until May 1, 2011, at which time it will be 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. Borrowings are collateralized by the Company's assets. The amount available under this agreement was \$4,651,000 as of September 30, 2010 as the Company has utilized approximately \$269,000 of this facility in the form of equipment term loans and an additional \$80,500 is being held as collateral by the Bank for an irrevocable stand-by letter of credit that was issued to a customer for that same amount as a result of the receipt of a payment for equipment that is under a warranty. As of September 30, 2010, the Company was in full compliance with the terms of the Revolving Credit Agreement.

NOTE 9: STOCK-BASED COMPENSATION EXPENSE

During the three and nine months ended September 30, 2010 and September 30, 2009, as per ASC 718, Stock Compensation, the Company recorded as part of selling and general administrative expense, approximately \$39,000 and \$127,000 and \$40,000 and \$127,000 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  
(Unaudited)

## NOTE 10: INCOME TAXES

The income tax benefit (provision) includes the following:

|                                       | Nine Months Ended September |              |
|---------------------------------------|-----------------------------|--------------|
|                                       | 30,                         |              |
|                                       | 2010                        | 2009         |
| Current:                              |                             |              |
| Federal                               | \$ 85,535                   | \$ (73,561 ) |
| State                                 | 26,111                      | (17,235 )    |
| Total Current Benefit/(Provision)     | \$ 111,646                  | \$ (90,796 ) |
| Deferred:                             |                             |              |
| Federal                               | \$ (18,482 )                | \$ 131,368   |
| State                                 | (4,348 )                    | 25,932       |
| Total Deferred (Provision)<br>Benefit | (22,830 )                   | 157,300      |
| Income tax Benefit                    | \$ 88,816                   | \$ 66,504    |

In 2006, the Company was required to change its accounting method for tax purposes from the completed contract method to the percentage of completion method. Under the provisions of the Internal Revenue Code, the Company elected to report the additional deferred revenue, for tax reporting purposes, of approximately \$2,000,000, or approximately \$500,000 per year, ratably over the four year period ended December 31, 2009.

The Company calculated its 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 the Company's tax provisions and tax returns are recorded when identified, which is generally in the third or fourth quarter of our subsequent year. During the third quarter of 2010, the Company reflected net adjustments upon filing its income tax returns of approximately \$134,000 comprised primarily of true-up adjustments to inventories and the domestic activities production deductions.

## NOTE 11: EARNINGS PER SHARE

As per ASC 260, basic earnings per share is 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.

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

NOTE 11: EARNINGS PER SHARE (continued)

Stock options to purchase 399,050 shares of common stock were outstanding and 314,910 were exercisable as of September 30, 2010. Stock options to purchase 416,000 shares were outstanding and 301,000 were exercisable during the three and nine months ended September 30, 2009. During the nine months ended September 30, 2009, potentially dilutive shares of 42,700 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.

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

In June 2008, the Company commenced an action against a third party in the Supreme Court of the State of New York, Suffolk County. By that action, the Company sought to recover approximately \$154,000 for manufacturing engineering services and system fabrication; spare parts; and reimbursable expenses. Subsequently, the defendant removed the action to the United States District court for the Eastern District of New York. Once in Federal Court, the defendant asserted several counterclaims. A settlement was agreed to in late 2009 and executed in February 2010.

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp and Mizuho Corporate Bank in the United States District Court for the Southern District of New York. By that action, the Company seeks monetary damages against Taiwan Glass Industrial Corp. (\$5,816,000) for breach of contract and against Mizuho Corporate Bank (\$3,564,000) for failing to pay the second installment on a letter of credit issued by Mizuho Corporate Bank.

The Company believes that Taiwan Glass Industrial Corp. has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by the Company and that Mizuho Corporate Bank was obligated to make the payment which it has failed and refused to make to the Company. Taiwan Glass Industrial Corp. and Mizuho Corporate Bank have each interposed an answer denying these allegations and Taiwan Glass Industrial Corp. has interposed counterclaims seeking unspecified monetary damages. There is a pending motion for summary judgment filed by Mizuho Corporate Bank seeking dismissal of the claim as against it. In addition, the Company filed a cross-motion seeking summary judgment against Mizuho Corporate Bank for its failure to make payment to the Company pursuant to the terms of a Letter of Credit. The Company is vigorously pursuing its claims against both defendants and defending against the counterclaims interposed by Taiwan Glass Industrial Corp.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(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  
September 30,

|                      | CVD          | SDC        | Conceptronic | Eliminations<br>* | Consolidated |
|----------------------|--------------|------------|--------------|-------------------|--------------|
| 2010                 |              |            |              |                   |              |
| Revenue              | \$ 2,925,541 | \$ 638,879 | \$ 516,645   | \$ (48,676 )      | \$ 4,032,389 |
| Pretax income/(loss) | 137,641      | (129,902 ) | 90,370       |                   | 98,109       |
| 2009                 |              |            |              |                   |              |
| Revenue              | \$ 2,894,288 | \$ 464,042 | \$ 259,902   | \$ (61,450 )      | \$ 3,556,782 |
| Pretax income/(loss) | 357,157      | (170,329 ) | (49,387 )    |                   | 137,441      |

Nine Months Ended  
September 30,

|                      | CVD          | SDC          | Conceptronic | Eliminations<br>* | Consolidated  |
|----------------------|--------------|--------------|--------------|-------------------|---------------|
| 2010                 |              |              |              |                   |               |
| Revenue              | \$ 8,041,348 | \$ 2,496,576 | \$ 1,184,520 | \$ (587,418 )     | \$ 11,135,026 |
| Pretax (loss)/income | 61,752       | (205,564 )   | 211,430      |                   | 67,618        |
| 2009                 |              |              |              |                   |               |
| Revenue              | \$ 8,490,954 | \$ 2,191,730 | \$ 697,651   | \$ (396,355 )     | \$ 10,983,980 |
| Pretax income/(loss) | 471,546      | (303,604 )   | (207,114 )   |                   | (39,172 )     |

\*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 our actual results, performance, or achievements 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 our existing and potential future product lines of business; our ability to obtain financing on acceptable terms if and when needed; uncertainty as to our 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. We assume 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 Nine Months Ended September 30, 2010 vs. Three and Nine Months Ended September 30, 2009

Revenue

Revenue for the three and nine months ended September 30, 2010 was approximately \$4,032,000 and \$11,135,000 respectively, as compared to \$3,557,000 and \$10,984,000 respectively, for the three and nine months ended September 30, 2009, an increase of 13.4% and 1.4%, respectively. The increased order levels we began to experience earlier this year as a result of the greater interest in energy generation, energy savings, nanotechnology, semiconductor and MEMS fields, as well as the increase in the availability of customer's funds to purchase capital equipment, are beginning to be converted into revenue.

Gross Profit

We generated gross profits of approximately \$1,420,000 and \$3,749,000, respectively, for the three and nine month periods ended September 30, 2010 resulting in gross profit margins of 35.2% and 33.7% respectively, as compared to gross profits of approximately \$1,433,000 and \$3,490,000, respectively, for the three and nine month periods ended September 30, 2009 with gross profit margins of 40.3% and 31.8%, respectively. The higher gross margin experienced during the three months ending September 30, 2009 was primarily the result of a revision made at that time to the estimated costs to complete a long-term contract under the percentage of completion method. The increase in gross margin during the nine months ended September 30, 2010 was primarily attributable to management's efforts to streamline our engineering and production personnel in order to achieve greater efficiencies.

### Selling, General and Administrative Expenses

Selling and shipping expenses for the three and nine months ended September 30, 2010 were approximately \$232,000 and \$658,000, respectively. This represented increases of approximately 42.3% and 25.3% respectively, as compared to selling and shipping expenses of \$163,000, and \$525,000, respectively for the three and nine months ended September 30, 2009. The increases for these respective periods can be attributed to commissions and the allocation of certain costs.

We incurred approximately \$1,039,000 and \$2,869,000 of general and administrative expenses respectively, during the three and nine months ended September 30, 2010, compared to approximately \$1,087,000 and \$2,867,000, respectively, incurred during the three and nine months ended September 30, 2009.

### Operating Income

As a result of the foregoing factors, operating income was approximately \$150,000 for the three months ended September 30, 2010, which represents a decrease of 17.6% compared to operating income of \$182,000 for the three months ended September 30, 2009. We achieved operating income of approximately \$222,000 for the nine months ended September 30, 2010 which represents an increase of 124.2% compared to operating income of approximately \$99,000 for the nine months ended September 30, 2009.

### Interest Expense, Net

Interest income for the three and nine months ended September 30, 2010 was approximately \$1,000 and \$6,000, respectively, compared to approximately \$6,000 and \$29,000 for the three and nine months ended September 30, 2009. This decrease is a result of investing cash in more conservative investments such as short-term treasury bonds and certificates of deposit, with lower returns than we previously received on money market funds. Interest expense for the three and nine months ended September 30, 2010 was \$56,000 and \$172,000, respectively, compared to approximately \$62,000 and \$189,000 for the three and nine months ended September 30, 2009. The primary source of this interest expense is from the mortgages on the three buildings that we own.

### Other Income

Other income during the three and nine months ended September 30, 2010 was approximately \$3,000 and \$11,000, respectively, compared to approximately \$10,000 and \$22,000, respectively, for the three and nine months ended September 30, 2009. Other income is primarily comprised of the cash received by the Company when it sells excess scrap metal periodically throughout the year.

## Income Taxes

For the nine months ended September 30, 2010, we recorded a current income tax benefit of approximately \$112,000 that was reduced by the reduction of deferred tax benefits of approximately \$23,000 which provided a net tax benefit for that period, compared to a current income tax expense of approximately \$91,000 that was reduced by the recognition of the deferred tax benefits of approximately \$157,000, which provided a net tax benefit for the nine months ended September 30, 2009. During the third quarter of 2010, we reflected net adjustments upon filing our income tax returns of approximately \$134,000 comprised primarily of true-up adjustments to inventories and the domestic activities production deductions.

## Net Income/(Loss)

We reported net income of approximately \$143,000 and \$156,000, respectively, for the three and nine month periods ended September 30, 2010 compared to net income of approximately \$103,000 and \$27,000 for the three and nine months ended September 30, 2009. The increased net income for the three months ended September 30, 2010 is primarily attributable to the increased revenue during the current period. The increased net income during the nine months ended September 30, 2010 is primarily attributable to the higher gross profit as a result of the streamlining of personnel to achieve greater efficiencies.

## Liquidity and Capital Resources

As of September 30, 2010, we had aggregate working capital of approximately \$10,648,000 compared to \$10,563,000 of working capital at December 31, 2009. We had cash and cash equivalents of \$4,406,000 compared to \$3,120,000 at December 31, 2009, an increase of approximately \$1,286,000. This increase in cash and cash equivalents was primarily the result of the timing of both shipments and customer payments on outstanding receivable balances.

Accounts receivable, net as of September 30, 2010 was \$2,713,000 compared to \$2,130,000 as of December 31, 2009. The increase is attributable to the timing of shipments and customer payments on balances outstanding.

As of September 30, 2010, our backlog was approximately \$7,634,000, an increase of \$5,085,000, or 199.5%, compared to \$2,549,000 at December 31, 2009. This increase in backlog is the result of the increased order levels we began to experience earlier this year from increased interest in energy generation, energy savings, nanotechnology, semiconductor and MEMS fields as well as the increase in the availability of customer's funds to purchase capital equipment. 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 or profits as order cancellations or delays are possible.

We believe that based on our historical growth rate, our cash and cash equivalents position at September 30, 2010 and available credit facilities, that our funds at September 30, 2010 will be sufficient to meet our working capital and investment requirements for the next twelve months.

#### Inflation

Inflation has not materially impacted the operations of our Company.

#### 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 4T. 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.

In June 2008, we commenced an action against a third party in the Supreme Court of the State of New York, Suffolk County. By that action, we sought to recover \$154,161 for manufacturing and engineering services and system fabrication; spare parts; and reimbursable expenses. Subsequently, the defendant removed the action to the United States District Court for the Eastern District of New York. Once in Federal Court, the customer asserted various counterclaims. A settlement of the actions was agreed to in late 2009 and executed in February 2010.

On January 26, 2010, we commenced an action against Taiwan Glass Industrial Corp and Mizuho Corporate Bank in the United States District Court for the Southern District of New York. By that action, we are seeking monetary damages against Taiwan Glass Industrial Corp. (\$5,816,000) for breach of contract and against Mizuho Corporate Bank (\$3,564,000) for failing to pay the second installment on a letter of credit issued by Mizuho Corporate Bank.

We believe that Taiwan Glass Industrial Corp. has no legal basis for unilaterally refusing to accept and pay for equipment specially manufactured for them and shipped to them by us and that Mizuho Corporate Bank was obligated to make the payment which it has failed and refused to make to us. Taiwan Glass Industrial Corp. and Mizuho Corporate Bank have each interposed an answer denying these allegations and Taiwan Glass Industrial Corp. has interposed counterclaims seeking unspecified monetary damages. There is a pending motion for summary judgment filed by Mizuho Corporate Bank seeking dismissal of the claim as against it. In addition, we filed a cross-motion seeking summary judgment against Mizuho Corporate Bank for its failure to make payment to us pursuant to the terms of a Letter of Credit. We are vigorously pursuing our claims against both defendants and defending against the counterclaims interposed by Taiwan Glass Industrial Corp.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

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

(a) Exhibits filed with this report:

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

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

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

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 15th day of November 2010.

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<br>NUMBER | DESCRIPTION                                                                |
|-------------------|----------------------------------------------------------------------------|
| 31.1              | Certification of Chief Executive Officer *                                 |
| 31.2              | Certification of Chief Financial Officer *                                 |
| 32.1              | Certification of Chief Executive Officer pursuant to U.S.C. Section 1350 * |
| 32.2              | Certification of Chief Financial Officer pursuant to U.S.C. Section 1350 * |

\* Filed herewith