

CVD EQUIPMENT CORP
Form 10-Q
May 15, 2013

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 March 31, 2013

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

For the transition period from ____ to ____

Commission file number: 1-16525

CVD EQUIPMENT CORPORATION
(Name of Registrant in Its Charter)

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

355 South Technology Drive 11722
Central Islip, New York
(Address of principal executive offices) (Zip Code)

(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: 6,069,370 shares of Common Stock, \$0.01 par value at May 1, 2013.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY

Index

| | |
|--|----|
| Part I - Financial Information | |
| Item 1 - Financial Statements (Unaudited) | |
| Consolidated Balance Sheets (Unaudited) at March 31, 2013 and December 31, 2012 | 2 |
| Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2013 and 2012 | 3 |
| Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2013 and 2012 | 4 |
| Notes to Unaudited Consolidated Financial Statements | 5 |
| Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3 – Quantitative and Qualitative Disclosures About Market Risk | 14 |
| Item 4 - Controls and Procedures | 14 |
| Part II - Other Information | 16 |
| Item 1 - Legal Proceedings | 16 |
| Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds | 16 |
| Item 3 – Defaults Upon Senior Securities | 16 |
| Item 4 – Mine Safety Disclosures | 16 |
| Item 5 - Other Information | 16 |
| Item 6 - Exhibits | 17 |
| Signatures | 18 |
| Exhibit Index | 19 |

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

| | March 31, 2013 | December 31, 2012 |
|--|---------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$11,770,854 | \$13,721,324 |
| Accounts receivable, net | 4,022,075 | 4,515,124 |
| Cost and estimated earnings in excess of billings on uncompleted contracts | 2,998,875 | 2,730,104 |
| Inventories | 2,904,900 | 2,742,905 |
| Deferred income taxes – current | 592,503 | 189,153 |
| Other current assets | 127,977 | 192,438 |
| Total Current Assets | 22,417,184 | 24,091,048 |
| Property, plant and equipment, net | 12,795,463 | 12,894,154 |
| Construction in progress | 4,991,257 | 4,051,573 |
| Deferred income taxes – non-current | 627,774 | 568,744 |
| Restricted cash | 800,000 | 800,000 |
| Other assets | 76,505 | 78,128 |
| Intangible assets, net | 39,525 | 41,614 |
| Total Assets | \$41,747,708 | \$42,525,261 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$937,866 | \$935,822 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 262,515 | 475,905 |
| Accounts payable and accrued expenses | 2,154,659 | 2,243,447 |
| Deferred revenue | 457,517 | 335,404 |
| Total Current Liabilities | 3,812,557 | 3,990,578 |
| Long-term debt, net of current portion | 7,152,159 | 7,387,019 |
| Total Liabilities | 10,964,716 | 11,377,597 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |
| Common stock - \$0.01 par value – 10,000,000 shares authorized; issued and outstanding, 6,057,770 at March 31, 2013 and 6,046,970 at December 31, 2012 | 60,578 | 60,470 |
| Additional paid-in-capital | 21,066,117 | 20,990,891 |

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| | | |
|--|--------------|--------------|
| Retained earnings | 9,656,297 | 10,096,303 |
| Total Stockholders' Equity | 30,782,992 | 31,147,664 |
| Total Liabilities and Stockholders' Equity | \$41,747,708 | \$42,525,261 |

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 March 31, | |
|--|---------------------------------|-------------|
| | 2013 | 2012 |
| Revenue | \$3,450,018 | \$7,154,951 |
| Cost of revenue | 2,662,744 | 4,419,763 |
| Gross profit | 787,274 | 2,735,188 |
| Operating expenses | | |
| Selling and shipping | 244,342 | 381,930 |
| General and administrative | 1,412,743 | 1,279,836 |
| Total operating expenses | 1,657,085 | 1,661,766 |
| Operating (loss)/income | (869,811) | 1,073,422 |
| Other (expense) income | | |
| Interest income | 8,194 | 6,881 |
| Interest expense | (52,785) | (32,299) |
| Other income | 12,016 | 11,792 |
| Total other (expense) | (32,575) | (13,626) |
| (Loss)/income before income tax benefit/(expense) | (902,386) | 1,059,796 |
| Income tax (benefit)/expense | (462,380) | 331,640 |
| Net (loss)/income | \$(440,006) | \$728,156 |
| Basic (loss)/income per common share | \$(0.07) | \$0.12 |
| Diluted (loss)/income per common share | \$(0.07) | \$0.12 |
| Weighted average common shares outstanding basic | 6,055,657 | 5,976,582 |
| Effect of potential common share issuance: | - | 175,039 |
| Weighted average common shares outstanding diluted | 6,055,657 | 6,151,621 |

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2013 | 2012 |
| Cash flows from operating activities | | |
| Net (loss)/income | \$(440,006 |) \$728,156 |
| Adjustments to reconcile net (loss)/income to net cash (used in) provided by operating activities: | | |
| Stock-based compensation expense | 57,634 | 76,464 |
| Depreciation and amortization | 129,635 | 139,218 |
| Deferred tax (benefit)/expense | (462,380 |) 84,387 |
| Bad debt provision | 1,032 | 1,994 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 492,017 | 2,376,060 |
| Cost in excess of billings on uncompleted contracts | (268,771 |) (158,833 |
| Inventories | (161,996 |) 52,769 |
| Other current assets | 64,462 | (18,380 |
| Increase (decrease) in operating liabilities: | | |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (213,390 |) (746,950 |
| Accounts payable and accrued expenses | (88,790 |) 784,976 |
| Deferred revenue | 122,113 | (1,047,039 |
| Net cash (used in)/provided by operating activities | (768,440 |) 2,272,822 |
| Cash flows from investing activities: | | |
| Capital expenditures | (966,914 |) (7,602,327 |
| Deposits | - | 311,781 |
| Net cash (used in) investing activities | (966,914 |) (7,290,546 |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 17,700 | 54,293 |
| Proceeds from long-term debt | - | 6,000,000 |
| Payments of long-term debt | (232,816 |) (154,912 |
| Net cash (used in)/provided by financing activities | (215,116 |) 5,899,381 |
| Net (decrease)/increase in cash and cash equivalents | (1,950,470 |) 881,657 |
| Cash and cash equivalents at beginning of period | 13,721,324 | 18,136,527 |
| Cash and cash equivalents at end of period | \$11,770,854 | \$19,018,184 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | \$25 | \$111,725 |
| Interest paid | \$52,785 | \$32,299 |

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for CVD Equipment Corporation and Subsidiary (collectively “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. They do not include all of the information and 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 months ended March 31, 2013 are not necessarily indicative of the results that can be expected for the year ending December 31, 2013.

The consolidated balance sheet as of December 31, 2012 has been derived from the audited consolidated 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, 2012, including the accounting policies followed by the Company as set forth in Note 2 to the consolidated financial statements contained therein.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Income Recognition

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

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

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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 recognized.

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, which at March 31, 2013 and December 31, 2012 was approximately \$9,864,000 and \$4,397,000, 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:

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| Costs incurred on uncompleted contracts | \$ 10,700,381 | \$ 10,733,663 |
| Estimated earnings | 9,855,394 | 9,465,412 |
| | 20,555,775 | 20,199,075 |
| Billings to date | (17,819,415) | (17,944,876) |
| | \$ 2,736,360 | \$ 2,254,199 |

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 4: UNCOMPLETED CONTRACTS (continued)

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| Included in accompanying balance sheets under the following captions: | | |
| Cost and estimated earnings in excess of billings on uncompleted contracts | \$2,998,875 | \$2,730,104 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | \$(262,515 |) \$(475,905) |

NOTE 5: INVENTORIES

Inventories consist of:

| | March 31, 2013 | December 31, 2012 |
|-----------------|-------------------|----------------------|
| Raw materials | \$1,559,248 | \$1,441,370 |
| Work-in-process | 398,177 | 304,916 |
| Finished goods | 947,475 | 996,619 |
| Totals | \$2,904,900 | \$2,742,905 |

NOTE 6: ACCOUNTS RECEIVABLE

Accounts receivable are presented net of an allowance for doubtful accounts of \$33,457 and \$32,425 as of March 31, 2013 and December 31, 2012, respectively. The allowance is based on prior experience and management's evaluation of the collectability of accounts receivable. Management believes the allowance is adequate. However, future estimates may change based on changes in future economic conditions.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2013
(Unaudited)

NOTE 7: LONG-TERM DEBT

On August 5, 2011, the Company entered into a \$9.1 million credit agreement with HSBC Bank, USA, N.A. (“HSBC”). This agreement consists of a \$7 million revolving credit facility and a five (5) year term loan in the initial amount of \$2.1 million. The \$7 million revolving credit facility remained unused as of both March 31, 2013 and December 31, 2012 and the balances of the term loan as of March 31, 2013 and December 31, 2012 were \$1,435,000 and \$1,540,000, respectively. 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 London Interbank Offered Rate (“LIBOR”) plus 1.75% or (ii) the bank’s prime rate minus 0.50%. Interest on the unpaid \$1,435,000 principal balance for the term loan, which was used to pay off the previous mortgages, accrues at a fixed rate of 3.045%. Borrowings under this term loan were additionally collateralized by \$1 million of restricted cash deposits, provided that, so long as no event of default has occurred and is then continuing, HSBC will release \$200,000 of the collateral on each anniversary of the closing date. The restricted balance at March 31, 2013 was \$800,000. This restricted cash is a separate line item on the consolidated balance sheet. The credit agreement also contains certain financial covenants. As of March 31, 2013, the Company was not in compliance with one of these covenants and has received a waiver from HSBC.

Effective as of March 15, 2012, we closed on the purchase of a 120,000 square foot facility located at 355 S. Technology Drive, Central Islip, New York (the “Property”) through the Town of Islip Industrial Development Agency. The purchase price for the Property was \$7,200,000 exclusive of closing costs. Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC Bank, USA, N.A., in the amount of \$6,000,000 (the “Loan”), the proceeds of which were used to finance a portion of the purchase price on the Property. The Loan is secured by a mortgage against the Property. Interest presently accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75% which was 1.9532% and 1.9590% at March 31, 2013 and December 31, 2012, respectively. The loan matures on March 15, 2022.

NOTE 8: STOCK-BASED COMPENSATION EXPENSE

During the three months ended March 31, 2013 and March 31, 2012, the Company recorded as part of selling and general administrative expense, approximately \$58,000 and \$76,000 respectively, for the cost of employee and director services received in exchange for equity instruments based on the grant-date fair value of those instruments. This expense was recorded based upon the guidance of ASC 718, “Compensation-Stock Compensation.”

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 9: INCOME TAXES

The provision for income taxes includes the following:

| | Three Months Ended March 31, | |
|------------------------------|------------------------------|-----------|
| | 2013 | 2012 |
| Current: | | |
| Federal | \$- | \$223,502 |
| State | - | 23,751 |
| Total Current Provision | - | 247,253 |
| Deferred: | | |
| Federal | \$(388,929) | \$51,280 |
| State | (73,451) | 33,107 |
| Total deferred | (462,380) | 84,387 |
| Income tax (benefit)/expense | \$(462,380) | \$331,640 |

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 10: 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 201,380 shares of common stock were outstanding and 163,880 were exercisable during the three months ended March 31, 2013. Stock options to purchase 268,540 shares were outstanding and 210,430 were exercisable during the three months ended March 31, 2012. At March 31, 2013, none of the outstanding options were included in the earnings per share calculation as their effect would have been anti-dilutive. At March 31, 2012, all outstanding options were included in the diluted earnings per share calculation because the average market price was higher than the exercise price.

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.

CVD EQUIPMENT CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 11: LEGAL PROCEEDINGS

On January 26, 2010, the Company commenced an action against Taiwan Glass Industrial Corp. ("Taiwan Glass") 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.

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. On April 12, 2012, Taiwan Glass filed a Motion seeking Partial Summary Judgment in the amount of \$3,564,000 (representing the portion of the purchase price that it had previously paid to the Company). By Memorandum and Order dated November 7, 2012, the Court denied the Taiwan Glass Motion in its entirety. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims.

NOTE 12: SEGMENT REPORTING

The Company operates through two (2) segments, CVD and SDC. 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. The respective accounting policies of CVD and SDC 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.

| 2013 | CVD | SDC | Eliminations * | Consolidated |
|---------------|--------------|--------------|----------------|--------------|
| Revenue | \$ 2,691,756 | \$ 869,689 | \$ (111,427) | \$ 3,450,018 |
| Pretax (loss) | (915,304) | 12,918 | | (902,386) |
| 2012 | | | | |
| Revenue | \$ 6,216,999 | \$ 1,473,941 | \$ (535,989) | \$ 7,154,951 |
| Pretax income | 822,188 | 237,608 | | 1,059,796 |

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

NOTE 13: SUBSEQUENT EVENTS

On April 5, 2013, the Company closed on the sale of the former corporate headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York. The selling price was \$3,875,000 exclusive of closing costs.

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

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

Results of Operations

Three Months Ended March 31, 2013 vs. Three Months Ended March 31, 2012

In March 2012, we purchased a 120,000 square foot facility located in Central Islip, New York 11722 (the "Property") through the Town of Islip Industrial Development Agency, (the "Islip IDA") and subsequently added another 10,000 square feet. The building replaced our two Ronkonkoma facilities which totaled 63,275 square feet which were not adequate to meet our anticipated future production requirements.

In the three months ended March 31, 2013, the results of operations were significantly impacted by this transaction due to the substantial amount of time and effort dedicated to renovating and moving into our new facility which proved to be disruptive to our continuing operations. We completed the relocation to our substantially larger facility in the closing days of the three month period ended March 31, 2013.

Revenue

Revenue for the three month period ended March 31, 2013 was approximately \$3,450,000 as compared to \$7,155,000 for the three month period ended March 31, 2012, a decrease of 51.8%. The decrease is directly attributable to the reduction in the amount of new orders accepted during this transition phase as well as the disruption and inefficiencies in production from dismantling and reconstructing equipment during the period.

Gross Profit

We generated gross profits of approximately \$787,000, resulting in a gross profit margin of 22.8%, for the three months ended March 31, 2013 as compared to gross profits of approximately \$2,735,000 and a gross profit margin of 38.2%, for the three months ended March 31, 2012. During the transition period into our new facility we continued to hire additional engineering and production personnel so that they would be fully trained and productive after the move which was the primary driver behind the reduction in our gross profit margin.

Selling, General and Administrative Expenses

Selling and shipping expenses for the three months ended March 31, 2013 and 2012 were approximately \$244,000 and \$382,000, respectively, representing an decrease of 36.1% compared to the prior period. This decrease can be primarily attributed to the reduced commissions earned as a result of the reduced number of systems shipped during the current period.

We incurred approximately \$1,413,000 of general and administrative expenses during the three months ended March 31, 2013, compared to approximately \$1,280,000 incurred during the three months ended March 31, 2012, representing an increase of 10.4%. This increase is primarily attributable to the expansion of our laboratory staff and our administrative personnel during the transition into our new facility.

Operating (Loss)/Income

As a result of the foregoing factors, operating loss was approximately (\$870,000) for the three months ended March 31, 2013 compared to operating income of approximately \$1,073,000 for the three months ended March 31, 2012.

Interest Expense, Net

Interest income for the three months ended March 31, 2013 was approximately \$8,000 compared to approximately \$7,000 for the three months ended March 31, 2012. Interest expense for the three months ended March 31, 2013 was approximately \$53,000 compared to approximately \$32,000 for the three months ended March 31, 2012. This increase was the result of the loan agreement we entered into with HSBC Bank, USA, N.A. on March 15, 2012, for \$6,000,000 to finance a portion of the purchase price for our new corporate headquarters.

Income Taxes

For the three months ended March 31, 2013, there was no current income tax expense and we recorded \$462,000 of deferred tax benefits, compared to current income tax expense of approximately \$247,000 and deferred tax expense of \$85,000 for the three months ended March 31, 2012.

Net (Loss)/Income

As a result of the foregoing factors, for the three months ended March 31, 2013, we incurred a net loss of approximately (\$440,000) compared to net income of approximately \$728,000 for the three months ended March 31, 2012.

Liquidity and Capital Resources

As of March 31, 2013, we had aggregate working capital of approximately \$18,605,000 compared to \$20,100,000 at December 31, 2012, a decrease of \$1,495,000 and cash and cash equivalents of \$11,771,000, compared to \$13,721,000 at December 31, 2012, a decrease of \$1,950,000. The decrease in working capital and cash and cash equivalents was primarily a result of the cash used to pay for the renovations of our new facility in Central Islip, New York and the additional current debt associated with the mortgage obtained on this facility.

Accounts receivable, net, as of March 31, 2013 was approximately \$4,022,000 compared to \$4,515,000 as of December 31, 2012. This decrease is primarily attributable to the timing of shipments and customer payments.

As of March 31, 2013, our backlog was approximately \$8,066,000, a decrease of \$276,000, or 3.3%, compared to \$8,342,000 at December 31, 2012. During the three months ended March 31, 2013, we received approximately \$3,174,000 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.

So that we may expand our engineering, manufacturing, administration and Application Laboratory to further support an increase in product sales and the development and sales of new products, on March 16, 2012, effective as of March 15, 2012, we closed on the purchase of a 120,000 square foot facility located in Central Islip, New York 11722 (the "Property") through the Town of Islip Industrial Development Agency, (the "Islip IDA"). This building will replace our two Ronkonkoma facilities which total 63,275 square feet. The transaction was structured pursuant to Section 1031 of the Internal Revenue Code, as amended, as a reverse tax deferred exchange. In order to avail ourselves of certain real estate and sales tax abatements, the purchase took the form of an assignment and lease purchase agreement with fee title continuing to be vested in the Islip IDA. The Property was purchased from SJA Industries, LLC. The purchase price for the Property was \$7,200,000, exclusive of closing costs.

Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC Bank, USA, N.A. in the amount of \$6,000,000, (the "Loan"), the proceeds of which were used to finance a portion of the purchase price of the Central Islip facility. The Loan is secured by the mortgage against that facility. Interest accrues on the Loan, at our option, at the variable rate of LIBOR plus 1.75%. The Loan matures on March 15, 2022.

On April 5, 2013, we closed on the sale of our former corporate headquarters located at 1860 Smithtown Avenue, Ronkonkoma, New York. The selling price for the premises was \$3,875,000, exclusive of closing costs.

We believe we have a sufficient amount of cash, positive operating cash-flow and available credit facilities at March 31, 2013 to meet our working capital and investment requirements for the next twelve months.

We may also raise additional funds in the event we determine in the future to effect one or more acquisitions of businesses, technologies or products. In addition, we may elect to raise additional funds even before we need them if the conditions for raising capital are favorable. On February 14, 2011, we filed a shelf registration statement on Form S-3 with the United States Securities and Exchange Commission (“SEC”) to register shares of our common stock and other securities for sale, giving us the opportunity to pursue possible future fundraising of up to \$20 million (“the Registration Amount”) when needed or otherwise considered appropriate at prices and on terms to be determined at the time of any such offerings. This shelf registration was declared effective by the SEC on February 28, 2011. On May 27, 2011 we received \$9,388,000 net proceeds from the issuance of 967,950 shares of our common stock at \$10.50 per share less \$775,000 of underwriting and other costs in our public offering. We currently have the ability, subject to satisfaction of applicable requirements, to sell securities for the balance of the Registration Amount under the shelf registration statement. The number of shares that we can sell and the amount of the gross proceeds that we can raise may be subject to certain limitations pursuant to applicable NASDAQ marketplace and SEC rules. Any equity or equity-linked financing could be dilutive to existing shareholders.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). As required by Rule 13a-15(b) under the Exchange Act, management of the Company, under the direction of our Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Report”).

Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with our management, have determined that as of the end of the period covered by this 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") 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.

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. On April 12, 2012, Taiwan Glass filed a Motion seeking Partial Summary Judgment in the amount of \$3,564,000 (representing the portion of the purchase price that it had previously paid to the Company). By Memorandum and Order dated November 7, 2012, the Court denied the Taiwan Glass Motion in its entirety. The Company is vigorously pursuing its claims against Taiwan Glass and defending against the counterclaims.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6.Exhibits

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

- 31.1* Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated May 15, 2013
- 31.2* Certification of Glen R. Charles, Chief Financial Officer, dated May 15, 2013
- 32.1* Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated May 15, 2013, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Glen R. Charles, Chief Financial Officer, dated May 15, 2013, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1** XBRL Instance.
- 101.SCH** XBRL Taxonomy Extension Schema.
- 101.CAL** XBRL Taxonomy Extension Calculation.
- 101.DEF** XBRL Taxonomy Extension Definition.
- 101.LAB** XBRL Taxonomy Extension Labels.
- 101.PRE** XBRL Taxonomy Extension Presentation.

* Filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 15th day of May 2013.

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)

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