

CVD EQUIPMENT CORP  
Form 10-Q  
August 11, 2016

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**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 June 30, 2016

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**

*(Exact Name of Registrant as specified in its charter)*

**New York**

**11-2621692**

*(State or Other Jurisdiction of  
Incorporation or Organization)* *(I.R.S. Employer Identification No.)*

**355 South Technology Drive  
Central Islip, New York  
11722**

*(Address of principal executive offices)*

(631) 981-7081

**(Registrant's telephone number, including area code)**

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

(Do not check if a smaller reporting company) 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: 6,322,680 shares of Common Stock, \$0.01 par value at August 5, 2016.

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**CVD EQUIPMENT CORPORATION AND SUBSIDIARY**

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## PART 1 – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,036,563	\$ 13,073,331
Accounts receivable, net	7,771,367	3,091,251
Costs and estimated earnings in excess of billings on contracts in progress	2,859,587	4,635,018
Inventories	3,085,136	2,986,430
Restricted cash	--	200,000
Deferred income taxes – current	821,863	398,009
Other current assets	28,239	167,056
<b>Total Current Assets</b>	<b>28,602,755</b>	<b>24,551,095</b>
Property, plant and equipment, net	14,398,068	14,793,923
Construction in progress	56,946	33,306
Deferred income taxes – non-current	1,815,967	1,606,830
Other assets	75,175	86,215
Intangible assets, net	50,727	60,335
<b>Total Assets</b>	<b>\$44,999,638</b>	<b>\$41,131,704</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 348,263	\$ 308,004
Accrued expenses	2,746,664	3,445,880
Current maturities of long-term debt	370,000	580,000
Billings in excess of costs and estimated earnings on contracts in progress	5,192,876	--
Deferred revenue	26,790	307,683
<b>Total Current Liabilities</b>	<b>8,684,593</b>	<b>4,641,567</b>
Long-term debt, net of current portion	3,115,508	3,265,508
<b>Total Liabilities</b>	<b>11,800,101</b>	<b>7,907,075</b>

Commitments and Contingencies	----	----
Stockholders' Equity		
Common stock - \$0.01 par value – 10,000,000 shares authorized; issued and outstanding, 6,322,680 at June 30, 2016 and 6,198,135 at December 31, 2015	63,227	61,981
Additional paid-in-capital	23,702,212	22,895,202
Retained earnings	9,434,098	10,267,446
Total Stockholders' Equity	33,199,537	33,224,629
Total Liabilities and Stockholders' Equity	\$44,999,638	\$41,131,704

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

## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$3,743,782	\$10,434,153	\$8,747,215	\$20,126,597
Cost of revenue	3,249,540	6,277,150	6,719,862	12,209,766
Gross profit	494,242	4,157,003	2,027,353	7,916,831
Operating expenses				
Research and development	72,459	257,872	154,334	469,762
Selling and shipping	286,884	273,903	544,675	587,720
General and administrative	1,744,080	2,108,625	3,470,180	4,135,735
Gain on settlement	(628,905 )	--	(628,905 )	--
Total operating expenses	1,474,518	2,640,400	3,540,284	5,193,217
Operating (loss)/income	(980,276 )	1,516,603	(1,512,931)	2,723,614
Other income (expense)				
Interest income	6,782	5,732	13,528	11,814
Interest expense	(22,462 )	(24,140 )	(42,455 )	(48,865 )
Other income	--	--	4,448	781
Total other (expense)	(15,680 )	(18,408 )	(24,479 )	(36,270 )
(Loss)/Income before income taxes	(995,956 )	1,498,195	(1,537,410)	2,687,344
Income tax (benefit)/expense	(500,372 )	163,282	(704,062 )	684,209
Net (loss)/income	\$(495,584 )	\$1,334,913	\$(833,348 )	\$2,003,135
Basic income/(loss) per common share	\$(0.08 )	\$0.22	\$(0.13 )	\$0.32
Diluted income/(loss) per common share	\$(0.08 )	\$0.21	\$(0.13 )	\$0.32
Weighted average common shares				
Outstanding-basic	6,301,983	6,170,075	6,257,563	6,169,201
Net effect of potential common share issuance:				
Stock options	--	130,887	--	119,146

Weighted average common shares				
Outstanding-diluted	6,301,983	6,300,961	6,257,563	6,288,347

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

## CVD EQUIPMENT CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	June 30,	2015
	2016	2015
Cash flows from operating activities:		
Net (loss)/income	\$ (833,348 )	\$ 2,003,135
Adjustments to reconcile net (loss)/income to net cash provided by/(used in) operating activities:		
Stock-based compensation expense	346,255	370,673
Depreciation and amortization	425,308	444,792
Deferred tax (benefit)/expense	(632,991 )	26,920
Provision for doubtful accounts	40,012	31,187
Changes in operating assets and liabilities:		
Accounts receivable	(4,720,127 )	(81,170 )
Costs and estimated earnings in excess of billings on contracts in progress	1,775,431	(830,695 )
Inventories	(98,706 )	637,177
Income taxes - current	--	511,158
Other current assets	172,178	94,037
Increases/(decreases) in operating liabilities:		
Accounts payable and accrued expenses	(692,310 )	1,678,912
Billings in excess of costs and estimated earnings on contracts in progress	5,192,876	(928,290 )
Accrued loss on litigation settlement	--	(4,925,000 )
Deferred revenue	(280,893 )	(309,267 )
Total adjustments	1,527,033	3,279,566
Net cash provided by/(used in) operating activities	693,685	(1,276,431 )
Cash flows from investing activities:		
Release of restricted cash	200,000	--
Capital expenditures	(34,003 )	(166,846 )
Deposits	1,550	--
Net cash provided by/(used in) investing activities	167,547	(166,846 )
Cash flows from financing activities:		
Net proceeds from stock options exercised	462,000	--
Payments of long-term debt	(360,000 )	(360,000 )
Net cash provided by/(used in) financing activities	102,000	(360,000 )
Net increase/(decrease) in cash and cash equivalents	963,232	(1,803,277 )
Cash and cash equivalents at beginning of period	13,073,331	11,966,863



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Cash and cash equivalents at end of period	\$ 14,036,563	\$ 10,163,586
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 100,000	\$ 100,000
Interest paid	\$ 42,455	\$ 48,865

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

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements for CVD Equipment Corporation and Subsidiaries (collectively, “the Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the interim financials not misleading have been included and all such adjustments are of a normal recurring nature. The operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that can be expected for the year ending December 31, 2016.

The balance sheet as of December 31, 2015 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, 2015, 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.

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

**Revenue Recognition**

Revenues from product and service sales, including those based on time and materials type contracts, are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales revenues, principally representing repair, maintenance and engineering activities are recognized over the contractual period or as services are rendered.

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

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

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

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

Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined. Changes in job requirements, 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, "Costs and estimated earnings in excess of billings on contracts in progress," represents revenues recognized in excess of amounts billed.

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

**Recent Accounting Pronouncements**

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

2014-09 for reporting periods beginning after December 15, 2016; however, the FASB, in August 2015, then issued ASU No. 2015-14 to defer the mandatory effective date of ASU 2014-09 for all entities by one year. Currently companies may choose among different transition alternatives. Management is currently evaluating the impact that ASU 2014-09 will have on the Company's consolidated financial statements and has not yet determined which method of adoption will be selected.

In February 2016 the FASB issued a new standard which requires a lessee to recognize on its balance sheet the assets and liabilities associated with the rights and obligations created by leases with terms that exceed twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of costs and cash flows arising from a lease. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. We are currently evaluating the effect that this new standard will have on our condensed consolidated financial statements.

In March 2016, the FASB issued an amendment which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, classification of awards as either equity or liabilities, as well as classification in the statement of cash flows. This amendment is effective for prospective interim and annual reporting periods beginning after December 15, 2016. We plan on adopting this amendment at that time and are currently evaluating its effect on our condensed consolidated financial statements.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2016****(Unaudited)****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 domestic financial institutions and invests its excess cash primarily in savings accounts, treasury bills and money market instruments. The Company performs periodic evaluations of the relative credit standing of all such institutions as it seeks to maintain stability and liquidity. Cash and cash equivalents at June 30, 2016 and December 31, 2015, exceeded the Federal Deposit Insurance Corporation (“FDIC”) limits by approximately \$12,349,000 and \$11,966,000, respectively. The Company sells products and services to various companies across several industries in the ordinary course of business. The Company performs ongoing credit evaluations to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience, evaluation of their credit history and review of the invoicing terms of the contract to determine the financial strength of its customers. The Company also maintains allowances for anticipated losses.

**NOTE 4: CONTRACTS IN PROGRESS**

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

	June 30, 2016	December 31, 2015
Costs incurred on contracts in progress	\$2,777,723	\$7,695,281
Estimated earnings	12,890,347	7,635,114
	15,668,070	15,330,395
Billings to date	(18,001,359)	(10,695,377)
	\$(2,333,289 )	\$4,635,018
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on contracts in progress	\$2,859,587	\$4,635,018
Billings in excess of costs and estimated earnings on contracts in progress	\$(5,192,876 )	\$---
	\$(2,333,289 )	\$4,635,018



**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2016****(Unaudited)****NOTE 5: INVENTORIES**

Inventories consist of:

	June 30, 2016	December 31, 2015
Raw materials	\$2,801,519	\$2,718,328
Work-in-process	219,390	174,698
Finished goods	64,227	93,404
Totals	\$3,085,136	\$2,986,430

**NOTE 6: ACCOUNTS RECEIVABLE**

Accounts receivable are presented net of an allowance for doubtful accounts of approximately \$59,000 and \$19,000 as of June 30, 2016 and December 31, 2015, 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 7: DEBT**

The Company has a revolving credit facility with HSBC Bank, USA, N.A. ("HSBC") providing up to \$7 million, although the Company has never utilized this facility. This credit facility remains available until September 1, 2018. The remaining balances as of June 30, 2016 and December 31, 2015 on a \$2.1 million term loan that was initially entered into in August 2011 are \$70,000 and \$280,000 respectively. 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%. The credit agreement also contains certain financial covenants, all of which the Company was in compliance



with at June 30, 2016 and December 31, 2015.

Pursuant to the terms of an Accommodation Agreement, we entered into a loan agreement with HSBC in the amount of \$6,000,000, the proceeds of which were used to finance a portion of the purchase price of our headquarters. The loan is secured by a mortgage against our Central Islip facility. The loan is payable in 120 consecutive equal monthly installments of principal of \$25,000 plus interest thereon and a final balloon payment. Interest accrues on the loan, at our option, at the variable rate of LIBOR plus 1.75% which was 2.1740% and 2.0670% at June 30, 2016 and December 31, 2015 respectively. The principal balances on the mortgage at June 30, 2016 and December 31, 2015 were approximately \$3.4 and \$3.6 million respectively.

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2016****(Unaudited)****NOTE 8: STOCK-BASED COMPENSATION EXPENSE**

During the three and six months ended June 30, 2016 and June 30, 2015, the Company recorded compensation expense as part of selling and general administrative expense, of approximately \$183,000 and \$346,000 and \$176,000 and \$371,000 respectively, for the cost of employee and director services received in exchange for equity instruments based on the grant-date fair value of those instruments. This expense was recorded based upon the guidance of ASC 718, "Compensation-Stock Compensation."

**NOTE 9: INCOME TAXES**

The provision for income taxes includes the following:

	Six Months Ended June 30,	
	2016	2015
Current:		
Federal	\$(71,070 )	\$645,116
State	--	12,173
Total Current Provision	(71,070 )	657,289
Deferred:		
Federal	\$(632,992)	\$26,920
State	----	----
Total deferred	(632,992)	26,920
Income tax expense/(benefit)	\$(704,062)	\$684,209

## Tax Rate Reconciliation

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

	Six Months Ended	
	June 30,	
	2016	2015
Income tax benefit at federal statutory rate [34%]	\$(353,981)	\$913,700
Change in other accruals	(50,866 )	23,175
Difference between tax and book depreciation	(53,112 )	(12,975 )
Stock-based compensation	(117,727)	(28,120 )
Research and development credits	(57,306 )	(571,583)
Domestic production activities deduction	--	(83,411 )
Net operating loss carryforward	--	954,581
Tax carryback	--	(511,158)
Provision for 2014 tax return true up	(71,070 )	--
Income tax (benefit)/expense	\$(704,062)	\$684,209

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

**NOTE 10: EARNINGS PER SHARE**

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 159,730 shares of common stock were outstanding and 79,730 were exercisable during the three and six months ended June 30, 2016. Stock options to purchase 259,730 shares were outstanding and 147,230 were exercisable during the three and six months ended June 30, 2015. For the three and six months ended June 30, 2016, none of the outstanding options were included in the earnings per share calculation as their effect would have been anti-dilutive. For the three and six months ended June 30, 2015 all outstanding options were included in the diluted earnings per share calculation because the average market price was higher than the exercise price.

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

**NOTE 11: SEGMENT REPORTING**

The Company operates through two (2) segments, CVD and SDC. The CVD division, which operates out of Central Islip, New York, is utilized for silicon, silicon germanium, silicon carbide and gallium arsenide processes. SDC is the Company's ultra-high purity manufacturing division in Saugerties, New York. The 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.

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Three Months Ended June 30,

<u>2016</u>	CVD	SDC	Eliminations *	Consolidated
Revenue	\$3,243,095	\$581,710	\$(81,023 )	\$3,743,782
Pretax (loss)	(758,035 )	(237,921 )		(995,956 )
<u>2015</u>				
Revenue	\$9,969,113	\$1,826,896	\$(1,361,856 )	\$10,434,153
Pretax income	846,558	651,637		1,498,195

Six Months Ended June 30,

<u>2016</u>	CVD	SDC	Eliminations *	Consolidated
Revenue	\$7,335,877	\$1,505,688	\$(94,350 )	\$8,747,215
Pretax (loss)	(1,363,640 )	(173,770 )		(1,537,410 )
<u>2015</u>				
Revenue	\$18,547,485	\$3,230,953	\$(1,651,841 )	\$20,126,597
Pretax income	1,635,645	1,051,699		2,687,344

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

**CVD EQUIPMENT CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

**NOTE 13: SUBSEQUENT EVENTS**

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

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

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

**Results of Operations****Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015**

	Three Months Ended		Change	%
	June 30,	June		Change
	2016	30, 2015		
(In thousands)				
Orders	\$31,893	\$13,142	\$18,751	142.7
Order Backlog	31,023	19,270	11,753	61.0
Revenue				
CVD (net of eliminations)	\$3,241	\$9,967	\$(6,726)	(67.5)
SDC (net of eliminations)	503	467	36	7.7
Total Revenue	3,744	10,434	(6,690)	(64.1)
Cost of Goods Sold	3,250	6,277	(3,027)	(48.2)
Gross Profit	494	4,157	(3,663)	(88.1)
Gross Margin	13.2	% 39.8	%	
Research and development	72	258	(186)	(72.1)
Selling and shipments	287	274	13	4.7
General and administrative	1,744	2,109	(365)	(17.3)
Gain on settlement	(629)	--	(629)	--
Total operating expenses	1,474	2,641	(1,167)	(44.2)
Operating (loss)/income	(980)	1,516	(2,496)	(164.6)
Other (expense)	(16)	(18)	2	(11.1)
(Loss)/income before taxes	(996)	1,498	(2,494)	(166.5)
Income tax (benefit)/expense	(500)	163	(663)	(406.7)
Net (loss)/income	(496)	1,335	(1,831)	(137.2)



**Orders/Order Backlog**

We received approximately \$31.9 million in new orders, during the three months ended June 30, 2016, including our largest order ever for \$29.6 million compared to \$13.1 million in new orders received during the three months ended June 30, 2015, an increase of \$18.8 million or 143.5%. This resulted in a backlog of \$31.0 million as of June 30, 2016 compared to \$19.3 million as of June 30, 2015. Approximately \$29.5 million or 90.8% of the backlog at June 30, 2016 is a result of multiple orders from one customer compared to \$8.4 million or 43.7% of the backlog at June 30, 2015. 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, less any amounts which have been previously billed or recognized as a component of our percentage-of-completion calculations. Management utilizes the order backlog to assist it in gauging projected revenues and profits; however, it does not provide an assurance of future achievement of revenues or profits as, for example, order cancellations or delays are possible.

**Revenue**

Our revenue for the three months ended June 30, 2016 was \$3.7 million compared to \$10.4 million in revenue for the three months ended June 30, 2015. This decrease of 64.4% was a result of the completion of the large aviation component supplier pilot production contract and the protracted negotiations which caused a delay in receiving the follow-on orders from that same customer. We have received additional multiple orders from that customer representing \$3.2 million or 85.7% of our revenue for the three months ended June 30, 2016 compared to \$8.0 million of our revenue or 76.7% of our revenue from that same customer for the three months ended June 30, 2015.

Revenue of \$500,000 from the SDC division remained the same for both the three months ended June 30, 2016 and 2015 respectively.

**Gross Profit**

We generated a gross profit of \$0.5 million for the three months ended June 30, 2016 compared to a gross profit of \$4.2 million for the three months ended June 30, 2015. The gross margin for the three months ended June 30, 2016 was 13.2% compared to 39.8% for the three months ended June 30, 2015. The reduced gross profit and gross margin was the result of the lower revenue and the costs of maintaining production staff in anticipation of the follow-on order from our largest customer.

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

Internal research and development expenses for the three months ended June 30, 2016 was \$72,000 compared to \$258,000 for the three months ended June 30, 2015. The reduction in research and development expenses compared to the prior year is due to the reduction of independently conducted research that we funded. Although we continue to invest in research for our products, we have temporarily curtailed the independent activities to reduce spending.

Selling and shipping expenses for each of the three months ended June 30, 2016 and 2015 were \$287,000 and \$274,000 respectively.

Our general and administrative expenses for the three months ended June 30, 2016 totaled \$1,726,000 compared to approximately \$2,109,000 during the three months ended June 30, 2015, an 18.2% reduction which was primarily the result of reduced legal fees in the current period compared to the prior year when we were actively involved in settling our legal disputes.

**Gain on Settlement**

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

**Operating (Loss)/Income**

As a result of the aforementioned, we incurred a loss from operations of \$1.0 million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 when we earned \$1.5 million from operations.

**Income Taxes**

For the three months ended June 30, 2016, we did not incur any current income tax expense. Primarily as a result of the operating loss and timing differences of depreciation and stock-based compensation for the three month period we recorded \$500,000 of deferred tax benefits which drove our effective tax rate to 50%. We incurred an income tax expense of \$163,000 for the three months ended June 30, 2015

**Net (Loss)/Income**

We reported a net loss of approximately \$0.5 million or (\$0.08) per share basic and diluted for the three months ended June 30, 2016, compared to net income of approximately \$1.3 million or \$0.22 per share basic and \$0.21 per diluted share for the three months ended June 30, 2015.

**Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015**

	June 30, 2016	June 30, 2015	Change	% Change
(In thousands)				
Orders	\$34,163	\$18,323	\$15,840	86.4
Order Backlog	31,023	19,270	11,753	61.0
Revenue				
CVD (net of eliminations)	\$7,330	\$18,538	\$(11,208)	(60.5 )
SDC (net of eliminations)	1,417	1,589	(172 )	(10.8 )
Total Revenue	8,747	20,127	(11,380)	(56.5 )
Cost of Goods Sold	6,720	12,210	(5,490 )	(45.0 )
Gross Profit	2,027	7,917	(5,890 )	(74.4 )
Gross Margin	23.2 %	39.3 %		
Research and development	154	470	(316 )	(67.2 )
Selling and shipping	545	588	(43 )	(7.3 )
General and administrative	3,470	4,136	(666 )	(16.1 )
Gain on settlement	(629 )	--	(629 )	
Total operating expenses	3,540	5,194	(1,654 )	(31.8 )
Operating (loss)/income	(1,513 )	2,723	(4,236 )	(155.6 )
Other (expense)	(24 )	(36 )	12	33.3
(Loss)/income before taxes	(1,537 )	2,687	(4,224 )	(157.2 )
Income tax (benefit)/expense	(704 )	684	(1,388 )	(203.9 )
Net (loss)/income	(833 )	2,003	(2,836 )	(141.6 )

**Orders/Order Backlog**

During the six months ended June 30, 2016, we received approximately \$34.2 million in new orders, including our largest single order in our history which totaled \$29.6 million compared to approximately \$18.3 million in new orders received during the six months ended June 30, 2015, an increase of \$15.9 million or 86.9%. This resulted in a backlog of \$31.0 million as of June 30, 2016 compared to \$19.3 million as of June 30, 2015. Approximately \$29.5 million or 90.8% of the backlog at June 30, 2016 is a result of multiple orders from one customer compared to \$8.4 million or

43.7% of the backlog at June 30, 2015. 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, less any amounts which have been previously billed or recognized as a component of our percentage-of-completion calculations. Management utilizes the order backlog to assist it in gauging projected revenues and profits; however, it does not provide an assurance of future achievement of revenues or profits as, for example, order cancellations or delays are possible.

**Revenue**

Revenue for the six months ended June 30, 2016 was \$8.7 million compared to \$20.1 million for the six months ended June 30, 2015, a decrease of \$11.4 million or 56.7%. This decrease was the result of the completion of the large aviation component supplier pilot production contract and the protracted negotiations which caused a delay in receiving the follow-on orders from that same customer. Our largest customer from which we have secured multiple orders represented \$6.2 million or 71.3% of our revenue for the six months ended June 30, 2016 compared to \$13.3 million or 66.2% of our revenue for the six months ended June 30, 2015 from that same customer.

**Gross Profit**

For the six months ended June 30, 2016, we generated a gross profit of \$2.0 million resulting in a gross profit margin of 23.2% compared to a gross profit of \$7.9 million for the six months ended June 30, 2015, which resulted in a gross profit margin of 39.3%. The decreased gross profit we are now experiencing is the result of the lower revenues.

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

Internal research and development expenses for the six months ended June 30, 2016 were \$154,000 compared to \$470,000 for the six months ended June 30, 2015. The reduction in research and development expenses compared to the prior year is due to the reduction of independently conducted research that we funded. Although we continue to invest in research for our products, we have temporarily curtailed the independent activities to reduce spending.

Selling and shipping expenses for the six months ended June 30, 2016 and 2015 were \$545,000 million and \$588,000 million, respectively.

General and administrative expenses totaled \$3.5 million and \$4.1 million for the six months ended June 30, 2016 and 2015, a decrease of 14.6%. This decrease is primarily attributable to a decrease in legal costs during the current period.

**Gain on settlement**

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

**Operating Income**

As a result of the decreased revenues, we incurred a loss from operations of \$1.5 million for the six months ended June 30, 2016 compared to income from operations of 2.7 million for the six months ended June 30, 2015.

**Income Taxes**

For the six months ended June 30, 2016, we did not incur any current income tax expense, received a refund of \$71,000 as a result of an overpayment on the 2015 federal corporate tax return. As a result of the operating loss and timing differences of depreciation and stock-based compensation for the six month period we recorded \$633,000 of deferred tax benefits which drove our effective tax rate to 46%. Income tax expense for the six months ended June 30, 2015 amounted to \$684,000.

**Net (Loss)/Income**

We reported a net loss of \$0.8 million or \$0.13 per share basic and diluted for the six months ended June 30, 2016 compared to net income of \$2.0 million or \$0.32 per share (basic and diluted) for the six months ended June 30, 2015.

**Inflation**

Inflation has not materially impacted the operations of our Company.

**Liquidity and Capital Resources**

Our working capital as of June 30, 2016 and December 31, 2015 was \$19.9 million, and cash and cash equivalents of \$14.0 million at June 30, 2016, compared to \$13.1 million at December 31, 2015, an increase of \$0.9 million. The increase in cash and cash equivalents was primarily the result of the timing of both shipments and customer payments on outstanding balances.

Accounts receivable, net, as of June 30, 2016 was \$7.7 million compared to \$3.1 million at December 31, 2015. One customer represented 87.0% and 44.2% of the balances on June 30, 2016 and December 31, 2015, respectively.

At June 30, 2016 the number of full time employees decreased to 180 employees compared to 192 at December 31, 2015



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

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

**Off-Balance Sheet Arrangements.**

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

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

Not applicable.

**Item 4. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls

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

reasonably likely to materially affect, the internal controls over financial reporting.

#### Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**CVD EQUIPMENT CORPORATION**

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

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

31.1 Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated August 11, 2016.

31.2 Certification of Glen R. Charles, Chief Financial Officer, dated August 11, 2016.

32.1 Certification of Leonard A. Rosenbaum, Chief Executive Officer, dated August 11, 2016, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Glen R. Charles, Chief Financial Officer, dated August 11, 2016, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

101.1\*\* XBRL Instance.

101.SCH\*\* XBRL Taxonomy Extension Schema.

101.CAL\*\* XBRL Taxonomy Extension Calculation

101.DEF\*\* XBRL Taxonomy Extension Definition.

101.LAB\*\* XBRL Taxonomy Extension Labels.

101.PRE\*\* XBRL Taxonomy Extension Presentation.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 11<sup>th</sup> day of August 2016.

CVD EQUIPMENT CORPORATION

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

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

EXHIBIT INDEX

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\* Filed herewith

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