NOVO NORDISK A S
Form 6-K
April 23, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 6-K

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REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

April 22, 2015

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NOVO NORDISK A/S
(Exact name of Registrant as specified in its charter)

Novo Allé
DK- 2880, Bagsvaerd
Denmark
(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F [X] Form 40-F [ ]

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [ ] No [X]

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g-32(b):82-_____

Novo Nordisk A/S – Reduction of the share capital

Bagsværd, Denmark, 22 April 2015 – At Novo Nordisk's Annual General Meeting on 19 March 2015, it was decided to reduce the company's B share capital from DKK 422,512,800 to DKK 412,512,800 by cancellation of part of the company's portfolio of own B shares at a nominal value of DKK 10,000,000 divided into 50,000,000 B shares of DKK 0.20 each.

Today, Novo Nordisk has registered the implementation of the reduction of the share capital with the Danish Business Authority and cancelled nominally DKK 10,000,000 B shares. After the reduction of the share capital, the company's share capital is nominally DKK 520,000,000, which is divided into an A share capital of nominally DKK 107,487,200 and a B share capital of nominally DKK 412,512,800.

The reduction in the share capital will not affect Novo Nordisk's share repurchase programme which will continue as previously announced.

Novo Nordisk is a global healthcare company with more than 90 years of innovation and leadership in diabetes care. The company also has leading positions within haemophilia care, growth hormone therapy and hormone replacement therapy. Headquartered in Denmark, Novo Nordisk employs approximately 41,500 employees in 75 countries, and markets its products in more than 180 countries. Novo Nordisk's B shares are listed on Nasdaq Copenhagen (Novo-B). Its ADRs are listed on the New York Stock Exchange (NVO). For more information, visit novonordisk.com, Facebook, Twitter, LinkedIn, YouTube

Further information

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Company announcement No 28 / 2015

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 of the undersigned, thereunto duly authorized.

Date: April 22, 2015

NOVO NORDISK A/S

Lars Rebien Sørensen,
Chief Executive Officer

x; vertical-align: text-bottom; text-align: left" ROWSPAN=1> 3,247 3,681 1,857 2,005 General and administrative 2,252 2,531 2,925 1,460 1,578 Research and development 410 500 513 217 315 Operating income 382 623 1,003 280 423 Net income 71 391 604 136 261 Net income per common share:
Basic 0.02 0.13 0.19 0.04 0.08 Diluted 0.02 0.12 0.19 0.04 0.08 Weighted average shares of common stock outstanding:
Basic 3,039 3,098 3,169 3,135 3,293 Diluted 3,053 3,220 3,264 3,294 3,432

## Balance Sheet Data:

| | At December 31, | | | At June 30, | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | | | | (Unaudited) | |
| | (In Thousands) | | | | |
| Cash and cash equivalents | $ 171 | $ 265 | $ 257 | $ 575 | $ 200 |
| Working capital | 2,878 | 3,123 | 4,151 | 3,225 | 4,935 |
| Total assets | 11,553 | 10,910 | 12,918 | 12,150 | 13,505 |
| Total current liabilities | 2,713 | 1,748 | 2,274 | 2,765 | 1,871 |
| Long-term obligations | 3,141 | 2,923 | 2,777 | 2,881 | 3,376 |
| Total shareholders equity | $ 5,699 | $ 6,238 | $ 7,200 | $ 6,504 | $ 7,638 |

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# RISK FACTORS

This offering and an investment in our securities involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus, including our consolidated financial statements and the related notes thereto included in those statements, as well as our filings with the Securities and Exchange Commission under the Exchange Act, before you purchase any of our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, could negatively impact our business, results of operations or financial condition in the future. If any of the following risks and uncertainties develops into actual events, our business, results of operations of financial condition could be adversely affected. In those cases, the trading price of our securities could decline, and you may lose all or part of your investment.

## Risks Related to our Business and Industry

### If demand declines for chemical vapor deposition, gas control and related equipment, or for carbon nanotube and nanowire deposition systems, our financial position and results of operations could be materially adversely affected.

Our products are utilized in the research, development and production of semiconductors and other electronic components such as solar cells, LEDs, carbon nanotubes and nanowires and MEMS, and equipment for surface mounting of components on to printed circut boards. They are also used to reflow solder on printed circuit boards.

Revenue from sales of our equipment used for research relating to, and manufacturing of, semiconductor and other electronic components was approximately 74% of our consolidated revenue in the year ended December 31, 2006, and is derived primarily from sales of customized chemical vapor deposition equipment, gas control systems, process equipment suitable for the synthesis of a variety of one-dimensional nanostructures and nanomaterials. A significant part of our growth strategy involves continued expansion of the sales of our products for research and development purposes by companies, university and government-funded research laboratories, as well as for production purposes. The availability of funds for these purposes may be subject to budgetary and political restrictions, as well as cost-cutting measures by manufacturers in the semiconductor and electronics industry.

If the availability of funds for research and development or the demand for capital equipment in the semiconductor and electronics industry declines, the demand for our products would also decline and our financial position and results of operations could be harmed.

## The ongoing volatility of the semiconductor and electronics industry may negatively impact our business and results of operations and our corresponding ability to efficiently budget our expenses.

The semiconductor and electronics industry is highly cyclical. The demand for our products and the profitability of our products can change significantly from period to period as a result of numerous factors, including, but not limited to, changes in:

the availability of funds for research and development;
global and regional economic conditions;
governmental budgetary and political constraints;
changes in the capacity utilization and production volume of manufacturers of semiconductors, silicon wafers, solar cells, LEDS surface mount technology and MEMS;
the profitability and capital resources of semiconductor and electronics manufacturers; and
changes in technology.

For these and other reasons, our results of operations for past periods may not necessarily be indicative of future operating results.

## Volatile demand for our products may make it difficult for us to accurately budget our expense levels, which are based in part on our projections of future revenues.

Demand for semiconductor and electronic manufacturing equipment and related consumable products may be volatile as a result of sudden changes in supply and demand, and other factors in the manufacturing processes.



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Our orders tend to be more volatile than our revenue, as any change in demand is reflected immediately in orders booked, which are net of cancellations, while revenue tends to be recognized over multiple quarters as a result of procurement and production lead times, and the deferral of certain revenue under our revenue recognition policies. The fiscal period in which we are able to recognize revenue is also at times subject to the length of time that our customers require to evaluate the performance of our equipment. This could cause our quarterly operating results to fluctuate.

If demand declines for chemical vapor deposition, gas control and relatedequipment, or for carbon nanotube and na

When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary in order for us to remain competitive and financially sound. During a down cycle, we must be able to make timely adjustments to our cost and expense structure to correspond to the prevailing market conditions. In addition, during periods of rapid growth, we must be able to increase manufacturing capacity and the number of our personnel to meet customer demand, which may require additional liquidity. We can provide no assurance, that these objectives can be met in a timely manner in response to changes within the semiconductor and electronics industry cycles. If we fail to respond to these cyclical changes, our business could be seriously harmed.

During the most recent down cycle in the semiconductor and electronics industry in 2001, this industry experienced a significant decrease in capital spending. We do not have long-term volume production contracts with our customers, and we do not control the timing or volume of orders placed by our customers. Whether and to what extent our customers place orders for any specific products, and the mix and quantities of products included in those orders are factors beyond our control. Insufficient orders would result in under-utilization of our manufacturing facilities and infrastructure, and will negatively affect our financial position and results of operations.

## The semiconductor and electronics processing equipment industry is competitive and we are relatively small in size and have fewer resources in comparison with many of our competitors.

The semiconductor and electronics processing equipment industry includes large manufacturers with substantial financial, marketing and other resources to develop new products and to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. Some of our competitors are diversified companies that have substantially greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose strategy is to provide a broad array of products, some of which compete with the products and services that we offer, as well as companies, universities and research laboratories that have the capacity to design and build their own equipment internally. These competitors may bundle their products and services in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging semiconductor and electronics processing equipment companies, whose strategy is to provide a portion of the products and services that we offer at often lower prices than ours, using innovative technology to sell products into specialized markets. Loss of competitive position could impair our prices, customer orders, revenue, gross margin and market share, any of which would negatively affect our financial position and results of operations. Our failure to compete successfully with these other companies would seriously harm our business. There is a risk that larger, better-financed competitors will develop and market more advanced products than those we currently offer, or that competitors with greater financial resources may decrease prices, thereby putting us under financial pressure.

## The health and environmental effects of nanotechnology are unknown, and this uncertainty could adversely affect the expansion of our business.

The health effects of nanotechnology are unknown. There is no scientific agreement on the health effects of nanomaterials in general and carbon nanotubes, in particular, but some scientists believe that in some cases, nanomaterials may be hazardous to an individual s health or to the environment. The science of nanotechnology is based on arranging atoms in such a way as to modify or build materials not made in nature; therefore, the effects are unknown. Future research into the effects of nanomaterials in general, and carbon nanotubes in particular, on health and environmental issues, may have an adverse effect on products incorporating nanotechnology. Since part of our growth strategy is based on sales of research equipment for the production of carbon nanotubes and the sale of such materials, the determination that these materials are harmful could adversely affect the expansion of our business.

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# Risks Related to Our Company

## We may experience increasing price pressure.

Our historical business strategy for many of our products has focused on product performance and customer service rather than on price. As a result of budgetary constraints, many of our customers are extremely price sensitive when purchasing of capital equipment. In addition, in our Conceptronic/Research division, we may face increased pricing pressure on our standardized products from competitors who have or are moving their manufacturing facilities to Asia. If we are unable to realize prices that allow us to continue to compete on the basis of product performance and customer service, our profit margins will be reduced.

## We may not be able to keep pace with the rapid change in the technology we use in our products.

We believe that our continued success in the semiconductor and electronics processing equipment industry depends, in part, on our ability to continually improve existing technologies and to develop and manufacture new products and product enhancements on a timely and cost-effective basis. We must be able to introduce these products and product enhancements into the market in a timely manner, in response to customers demands for higher-performance research and assembly equipment, customized to address rapid technological advances in capital equipment designs.

Technological innovations are inherently complex, and require long development cycles and appropriate professional staffing. Our future business success depends on our ability to develop and introduce new products (such as our Easy Tube product line sold by our CVD/First Nano division), or new uses for existing products, that successfully address changing customer needs. Our success also depends on our ability to achieve market acceptance of our new products. In order to maintain our success in the marketplace, we may have to substantially increase our expenditures on research and development. If we do not develop and introduce new products, technologies or uses for existing products in a timely manner and continually find ways to reduce the cost of developing and producing them in response to changing market conditions or customer requirements, our business could be seriously harmed.

## If any of our customers cancel or fail to accept a large system order, our financial position and results of operations could be materially and adversely affected.

Our backlog, which largely consists of orders for large customized systems that include our chemical vapor deposition equipment and annealing and diffusion furnaces, which are built to client specifications, can have system prices of up to approximately $1.0 million depending on the system configuration, specific options included and any special requirements of the customer. Because all of our backlogged orders are subject to cancellation or delay by the customer, our backlog at any particular point in time is not necessarily representative of actual sales for succeeding periods, nor does our backlog provide any assurance that we will realize a profit from completing these orders. Our financial position and results of operations could be materially and adversely affected should any large system order be cancelled prior to shipment, or not be accepted by the customer due to non-conformity with product specifications or otherwise. Likewise, a significant change in the liquidity or financial position of any of our customers that purchase large systems, could have a material impact on the collectibility of our accounts receivable and our future operating results. Our backlog does not provide any assurance that we will realize a profit from those orders, or indicate in

which period revenue will be recognized.

## Our success is highly dependent on the technical, sales, marketing and managerial contributions of key individuals, including Leonard A. Rosenbaum, Chairman of the Board of Directors, Chief Executive Officer and President, and we may be unable to retain these individuals or recruit others.

We depend on our senior executives, including Leonard A. Rosenbaum, our Chairman of the Board of Directors, Chief Executive Officer and President, and certain key managers as well as, engineering, research and development, sales, marketing and manufacturing personnel, who are critical to our business. We do not have long-term employment agreements with our key employees. We presently have three separate key person life insurance policies on the life of Leonard A. Rosenbaum, for a total insured amount of $9 million, which may not be sufficient to cover our loss of Mr. Rosenbaum s services. Furthermore, larger competitors may be able to offer more generous compensation packages to our executives and key employees, and therefore we risk losing key personnel to those competitors. If we were to lose the services of any of our key personnel,





our engineering, product development, manufacturing and sales efforts could be slowed. We may also incur increased operating expenses, and be required to divert the attention of our senior executives to search for their replacements. The integration of any new personnel could disrupt our ongoing operations.

## We may not be able to hire or retain the number of qualified personnel, particularly engineering personnel, required for our business, which would harm the development and sales of our products and limit our ability to grow.

Competition in our industry for senior management, technical, sales, marketing and other key personnel is intense. If we are unable to retain our existing personnel, or attract and train additional qualified personnel, our growth may be limited due to a lack of capacity to develop and market our products.

In particular, we have, from time to time, experienced difficulty in hiring and retaining skilled engineers with appropriate qualifications to support our growth strategy. Our success depends on our ability to identify, hire, train and retain qualified engineering personnel with experience in equipment design. Specifically, we need to continue to attract and retain mechanical, electrical, software and field service engineers to work with our direct sales force to technically qualify and perform on new sales opportunities and orders, and to demonstrate our products.

## The substantial lead-time required for ordering parts and materials may lead to inventory problems.

The lead-time for ordering parts and materials for some of our products can be many months. As a result, we must order some components based on forecasted demand. If demand for our products lags significantly behind our forecasts, we may order more components than we require, which would result in cash flow problems as well as excess or obsolete inventory.

If any of our customers cancel or fail to accept a large system order, ourfinancial position and results of operations c

## Acquisitions can result in an increase in our operating costs, divert management s attention away from other operational matters and expose us to other associated risks.

We continually evaluate potential acquisitions of businesses and technologies, and we consider targeted acquisitions that expand our core competencies to be an important part of our future growth strategy. In the past, we have made acquisitions of other businesses with synergistic products, services and technologies, and plan to continue to do so in the future. An example of this is our recent acquisition of the assets of First Nano, Inc. Acquisitions involve numerous risks, which include but are not limited to:

difficulties and increased costs in connection with the integration of the personnel, operations, technologies and products of the acquired companies into our existing facilities and operations;

diversion of management s attention from other operational matters;

failure to commercialize the acquired technology;

the potential loss of key employees of the acquired companies;

lack of synergy, or inability to realize expected synergies, resulting from the acquisition;

the risk that the issuance of our common stock, if any, in an acquisition or merger could be dilutive to our shareholders;

the inability to obtain and protect intellectual property rights in key technologies; and

the acquired assets becoming impaired as a result of technological advancements or worse-than-expected performance of the acquired assets.

## Our financial position and results of operations may be materially harmed if we are unable to recoup our investment in research and development.

The rapid change in technology in our industry requires that we continue to make substantial investments in research and development and selective acquisitions of technologies and products, in order to enhance the performance and functionality of our product line, to keep pace with competitive products and to satisfy customer demands for improved performance, features and functionality. These efforts include those related to the development of technology for the commercialization of carbon nanotubes. There can be no assurance that revenue from future products or enhancements will be sufficient to recover the development costs associated



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with such products, enhancements or acquisitions, or that we will be able to secure the financial resources necessary to fund future research and development or acquisitions. Research and development costs are typically incurred before we confirm the technical feasibility and commercial viability of a product, and not all development activities result in commercially viable products. In addition, we cannot ensure that products or enhancements will receive market acceptance, or that we will be able to sell these products at prices that are favorable to us. Our business could be seriously harmed if we are unable to sell our products at favorable prices, or if our products are not accepted by the markets in which we operate.

## If third parties violate our proprietary rights, in which we have made significant investments, or accuse us of infringing upon their proprietary rights, such events could result in a loss of value of some of our intellectual property or costly litigation.

Acquisitions can result in an increase in our operating costs, divert management s attention away from other opera

Our success is dependent in part on our technology and other proprietary rights. We believe that while patents can be useful and may be utilized by us in the future, they are not always necessary or feasible to protect our intellectual property. The process of seeking patent protection is lengthy and expensive, and we cannot be certain that applications will actually result in issued patents or that issued patents will be of sufficient scope or strength to provide meaningful protection or commercial advantage to us. Instead, we have historically protected our proprietary information and intellectual property such as design specifications, blueprints, technical processes and employee know-how, by limiting access to this confidential information and trade secrets and through the use of non-disclosure agreements. Other companies and individuals, including our larger competitors, may develop technologies that are similar or superior to our technology, or design around the intellectual property that we own or license. Our failure to adequately protect our intellectual property, could result in the reduction or extinguishment of our rights to such intellectual property. We also assert rights to certain trademarks relating to certain of our products and product lines. We have not filed trademark applications to protect such marks with any governmental agency, including, but not limited to the U.S. Patent and Trademark Office. We claim copyright protection for certain proprietary software and documentation, but we have not filed any copyright applications with the U.S. Copyright Office in connection with those works. As a result, we can give no assurance that our trademarks and copyrights will be upheld or successfully deter infringement by third parties.

While patent, copyright and trademark protection for our intellectual property may be important, we believe our future success in highly dynamic markets is most dependent upon the technical competence and creative skills of our personnel. We attempt to protect our trade secrets and other proprietary information through confidentiality agreements with our customers, suppliers, employees and consultants, and through other internal security measures. However, these employees, consultants and third parties may breach these agreements, and we may not have adequate remedies for wrongdoing. In addition, the laws of certain territories in which we sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

Occasionally, we may receive communications from other parties asserting the existence of patent rights or other intellectual property rights that they believe cover certain of our products, processes, technologies or information. If such cases arise, we will evaluate our position and consider the available alternatives, which may include seeking licenses to use the technology in question on commercially reasonable terms, or defending our position. Nevertheless, we cannot ensure that we will be able to obtain licenses, or if we are able to obtain licenses, that such licenses will be on acceptable terms, or that litigation or other administrative proceedings will not occur. Defending our intellectual property rights through litigation could be very costly. If we are not able to negotiate the necessary licenses on commercially reasonable terms or successfully defend our position, our financial position and results of operations could be materially and adversely affected.

## Our reputation and operating performance may be negatively affected if our products are not timely delivered.

We provide complex products that often require substantial lead-time for design, ordering parts and materials, and for assembly and installation. The time required to design, order parts and materials and to manufacture, assemble and install our products, may in turn lead to delays or shortages in the availability of some products. If a product is delayed or is the subject of shortage because of problems with our ability to design, manufacture or assemble the product on a timely basis, or if a product or software otherwise fails to meet performance





criteria, we may lose revenue opportunities entirely, or experience delays in revenue recognition associated with a product or service. In addition, we may incur higher operating expenses during the period required to correct the

If third parties violate our proprietary rights, in which we have madesignificant investments, or accuse us of infringin

problem.

## Our lengthy and variable sales cycle may make it difficult to predict our financial results.

The marketing, sale and manufacture of our products, often requires a lengthy sales cycle ranging from several months to over one year before we can complete production and delivery. The lengthy sales cycle makes forecasting the volume and timing of sales difficult, and raises additional risks that customers may cancel or decide not to enter into contracts. The length of the sales cycle depends on the size and complexity of the project, the customer s in-depth evaluation of our products. and, in some cases, the protractedness of a bidding process. Because a significant portion of our operating expenses are fixed, we may incur substantial expense before we earn associated revenue. If customer cancellations occur, they could result in the loss of anticipated sales without allowing us sufficient time to reduce our operating expenses.

## We anticipate continued growth in our revenues and operations during the next few years. If we fail to manage our growth effectively, we may experience difficulty in filling customer orders, declining product quality, increased costs or other operating challenges.

We anticipate that continued growth of our operations will be required to satisfy our projected increase in demand for our products and to avail ourselves of new market opportunities. The expanding scope of our business and the growth in the number of our employees, customers and products have placed and will continue to place a significant strain on our management, information technology systems, manufacturing facilities and other resources. To properly manage our growth, we may need to hire additional employees, upgrade our existing financial and reporting systems and improve our business processes and controls. We may also be required to expand our manufacturing facilities or add new manufacturing facilities. Failure to effectively manage our growth could make it difficult to manufacture our products and fill orders, as well as lead to declines in product quality or increased costs; any of these would adversely impact our business and results of operations.

Historically, we have only manufactured in unit or small batch quantities. If we receive orders for a large number of our systems, we may not have the internal manufacturing capacity to fill these orders on a timely basis, if at all, and may be forced to subcontract or outsource some of the fabrication of these systems to third parties. We cannot assure you that we will be able to successfully subcontract or outsource the fabrication of our systems at a reasonable cost to us, or that such third parties will adhere to our quality control standards.

## Our business might be adversely affected by our dependence on foreign business.

During the year ended December 31, 2006, 31% of our revenues came from foreign exports as compared with 29% for the year ended December 31, 2005.

Because a significant amount of our revenues are derived from international customers, our operating results could be negatively affected by a decline in the economies of any of the countries or regions in which we do business. Each region in the global semiconductor and electronics equipment market exhibits unique characteristics, which can cause capital equipment investment patterns to vary significantly from period to period. Periodic local or international economic downturns, trade balance issues and political instability, as well as fluctuations in interest and currency exchange rates, could negatively affect our business and results of operations.

All of our sales historically have been priced in U.S. dollars. While our business has not been materially affected in the past by currency fluctuations, there is a risk that it may be materially adversely affected in the future. Such risks includes possible losses due to both currency exchange rate fluctuations and from possible social and political instability.

## Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. We have agreements with third parties and make sales in countries known to



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experience corruption, extortion, bribery, pay-offs, theft and other fraudulent practices. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

## If our critical suppliers fail to deliver sufficient quantities of quality materials and components in a timely and cost-effective manner, it could negatively affect our business.

We do not manufacture many components used in the production of our products, and consequently, we use numerous unrelated suppliers of materials and components. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of our customer s orders, we try to avoid maintaining an extensive inventory of materials and components for manufacturing. While we are not dependent on any principal or major supplier for most of our material and component needs, switching over to an alternative supplier may take significant amounts of time and added expense, which could result in a disruption of our operations and adversely affect our business.

It is not always practical or even possible to ensure that component parts are available from multiple suppliers; accordingly, we procure some key parts from a single supplier or a limited group of suppliers. During the semiconductor and electronics market peak years, increases in demand for capital equipment resulted in longer lead-times for many important system components, which caused delays in meeting shipments to our customers. The delay in the shipment of even a few systems could cause significant variations in our quarterly revenue, operating results and the market value of our common stock.

We cannot assure you that our financial position and results of operations will not be materially and adversely affected if, in the future, we do not receive in a timely and cost-effective manner a sufficient quantity of quality component parts and materials to meet our production requirements.

## We might require additional financing to expand our operations.

We may require additional financing to further implement our growth plans. We cannot assure you any additional financing will be available if and when required, or, even if available, that it would not materially dilute the ownership

percentage of the then existing shareholders.

## Cost of compliance with Section 404 of the Sarbanes-Oxley Act could adversely affect future operating results, the trading price of our common stock and failure to comply could result in loss of our stock market listing, civil penalties and other liabilities.

Section 404 of the Sarbanes-Oxley Act requires management to certify that it has tested and found the company s internal controls to be effective. It is also required that the company s independent auditors attest that such management representations are reasonably founded. The adequacy of internal controls generally takes into consideration that the anticipated benefits of a control should outweigh the cost of that control. Auditing standards related to the internal control requirements of Section 404 of the Sarbanes Oxley Act will significantly increase the cost and time needed to comply with the requirements of Section 404. Based upon the existing deadlines, we must fully comply with all requirements of Section 404 (including provision of an auditor s attestation report), for our year ending December 31, 2008. Complying with these requirements is very complex, costly and time consuming and, if we are required to comply under the existing regulations, will have a material impact on our operating results. Failure to comply could result in civil penalties, loss of our listing on AMEX (and NASDAQ, subsequent to the closing of the offering), and the imposition of possible litigation.

## We face the risk of product liability claims.

The manufacture and sale of our products, which in operation may involve the use of toxic materials and extreme temperatures, involve the risk of product liability claims. For example, our rapid thermal processing systems are used to heat semiconductor materials to temperatures in excess of 1000° Celsius. In addition, a failure of one of our products at a customer site could interrupt the business operations of our customer. Our existing insurance coverage limits may not be adequate to protect us from all liabilities that we might incur in connection with the manufacture and sale of our products if a successful product liability claim or series of product liability claims were brought against us.



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## We are subject to environmental regulations, and our inability or failure to comply with these regulations could adversely affect our business.

We are subject to environmental regulations in connection with our business operations, including regulations related to the development and manufacture of our products and our customers use of our products. Our failure or inability to comply with existing or future environmental regulations could result in significant remediation liabilities, the imposition of fines or the suspension or termination of development, manufacturing or use of certain of our products, or affect the operation of our facilities, use or value of our real property, each of which could damage our financial position and results of operations.

# Risks Related to the Securities Offered Pursuant to this Prospectus

## Our officers and directors may be able to block proposals for a change in control.

Leonard A. Rosenbaum, our founder, President and Chief Executive Officer and a director, beneficially owns approximately 40.5% of our outstanding common stock, 23.2% after this offering, assuming no exercise of the overallotment option, and our officers and directors as a group beneficially own approximately 48.1% of our outstanding common stock, 27.9% after this offering, assuming no exercise of the overallotment option, as of the date of this prospectus. Due to this concentration of ownership, Mr. Rosenbaum may be able to prevail on all matters requiring a shareholder vote, including:

the election of directors;
the amendment of our organizational documents; or
the approval of a merger, sale of assets or other major corporate transaction.

## We do not intend to pay dividends on our common stock. You will realize a return on your investment only if our stock price appreciates and you sell.

Our policy is to retain earnings to provide funds for the operation and expansion of our business. We have never paid cash dividends on our common stock and do not anticipate that we will do so in the foreseeable future. The payment of dividends in the future will depend on our growth, profitability, financial condition and other factors that our Board of Directors may deem relevant.

## Because our common stock has low trading volume and its public trading price has been volatile, you may only be able to resell shares of our common stock at a loss.

During the year ended December 31, 2006, the sale price of our common stock fluctuated between $2.25 and $7.13 per share, with an average monthly trading volume during such period of approximately 350,000 shares, ranging from a low of 49,400 shares in March 2006 to 1,762,900 in December 2006. In addition to general market volatility, many factors may have significant adverse effects on the market price of our stock, including:

actual or anticipated variations in quarterly operating results;
changes in financial estimates by securities analysts;
announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
issuance of debt or equity securities;
new products or services offered by us or our competitors; and
other events or factors, many of which are beyond our control.

Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. In the past, following a period of volatility in the market price of a company s securities, securities class action litigation has often been instituted against such companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management s attention and resources, which would harm our business.



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## Shares eligible for sale in the future could negatively effect our stock price.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock, including sales of shares as a result of this offering, or the perception that these sales may occur. Leonard A. Rosenbaum, our Chairman of the Board, President, and Chief Executive Officer, beneficially owns approximately 40.5% of our outstanding common stock, prior to this offering. In the event Mr. Rosenbaum elects to sell a significant number of these shares on the open market following expiration of his lock-up agreement, our stock price could be negatively affected. This may also make it more difficult to raise funds through the issuance of debt or the sale of equity securities.

## Our management will have broad discretion as to the use of proceeds from this offering, and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. We might not apply the net proceeds of this offering in ways that you agree, or in ways that increase the value of your investment. We expect to use the proceeds of this offering for general corporate purposes and working capital, research and development and possible future acquisition. See *Use of Proceeds.* We have not allocated these net proceeds for any specific purposes. Our management might not be able to yield a significant return, if any, on any investment of these proceeds.



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# USE OF PROCEEDS

In this offering, we estimate that the net proceeds to us from the sale of shares of our common stock will be approximately $, assuming a public offering price of $ per share (the last reported sale price of our common stock on the AMEX on , 2007) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The net proceeds will be used for general corporate purposes. We will have broad discretion as to the use of these proceeds and may apply them to product development efforts, acquisitions or strategic alliances. We have no definitive agreements with respect to future acquisitions or future strategic alliances and have no commitments with respect to these net proceeds.

We will not receive any of the proceeds from the sale of common stock, if any, by the selling shareholders upon the exercise of the underwriter s overallotment option.



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# PRICE RANGE OF COMMON STOCK

Our common stock is traded on the American Stock Exchange ( AMEX ) under the symbol CVV. The following table sets forth, for the periods indicated, the high and low closing prices per share of the common stock as reported

on the AMEX.

| | High | Low |
|---|---|---|
| Fiscal Year 2005 | | |
| First Quarter ended March 31, 2005 | $ 5.25 | $ 0.91 |
| Second Quarter ended June 30, 2005 | 6.51 | 2.04 |
| Third Quarter ended September 30, 2005 | 4.30 | 1.90 |
| Fourth Quarter ended December 31, 2005 | 4.60 | 2.72 |
| Fiscal Year 2006 | | |
| First Quarter ended March 31, 2006 | 4.21 | 2.80 |
| Second Quarter ended June 30, 2006 | 4.22 | 2.80 |
| Third Quarter ended September 30, 2006 | 3.69 | 2.25 |
| Fourth Quarter ended December 31, 2006 | 7.13 | 3.09 |
| Fiscal Year 2007 | | |
| First Quarter ended March 31, 2007 | 6.21 | 4.90 |
| Second Quarter ended June 30, 2007 | 8.95 | 5.25 |
| Third Quarter through August 3, 2007 | 6.15 | 4.55 |

On August 3, 2007, the last sale price of our common stock reported on the AMEX was $6.15 per share. As of August 3, 2007, we had approximately 80 holders of record of our common stock.

# DIVIDEND POLICY

We have never paid dividends on our common stock and currently intend to retain any future earnings for use in our business. There can be no assurance that we will ever pay dividends on our common stock. Our dividend policy with respect to our common stock is within the discretion of our Board of Directors, and its policy with respect to dividends in the future will depend on numerous factors including earnings, cash balances, financial requirements and general business conditions.

(1) Effective upon the closing of this offering, our common stock will be traded on the NASDAQ Capital Market under the symbol CVV, and will no longer be listed on the American Stock Exchange.



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# CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2007. Our capitalization is presented on an historical basis and on an as-adjusted basis to give effect to the sale of 2,500,000 shares of common stock, based on an assumed public offering price of per share, as if the offering has been completed as of June 30, 2007 and assuming:

the net proceeds of the offering are $ million, after deducting the estimated underwriting discounts and commissions and estimated offering expenses of $; and

the application of the net proceeds of this offering to the uses described in *Use of Proceeds.*

The following data should be read together with our consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

| | June 30, 2007 (Unaudited) | |
|---|---|---|
| | Actual | As Adjusted |
| | (Dollar Amounts In Thousands, Except Per Share Data) | |
| Long-Term Debt, net of current portion | 3,376 | |
| Shareholders Equity | | |
| Common stock, par value $0.01 per share, 10,000,000 shares authorized, 3,303,500 shares issued and outstanding | 33 | |
| Preferred stock, par value $0.01 per share; 500 shares Class A Preferred stock authorized, no shares issued and outstanding; 250 shares Class B Preferred Stock authorized, no shares issued and outstanding | | |
| Additional paid-in capital | 3,581 | |
| Retained earnings | 4,023 | |
| Total shareholders equity | 7,637 | |
| Total capitalization[(1)] | | |
| Book value per common share | 2.31 | |
| Diluted book value per common share[(2)] | 2.22 | |

(1) Includes total shareholders equity and long-term indebtedness.

(2) Includes options, the exercise prices of which were below the market price of the common stock as of June 30, 2007.



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# SELECTED CONSOLIDATED FINANCIAL DATA

We derived the consolidated operating data for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2002, 2003, 2004, 2005 and 2006 from our audited consolidated financial statements. The selected consolidated operating data for the years ended December 31, 2004, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005 and 2006 are derived from our audited consolidated financial statements that appear elsewhere in this prospectus. The selected consolidated operating data for the years ended December 31, 2002 and 2003 and the selected consolidated balance sheet data as of December 31, 2002, 2003 and 2004 are derived from our audited financial statements not incorporated into this prospectus. The selected consolidated operating data as and for the six months ended June 30, 2006 and 2007 and the selected consolidated balance sheet data as of June 30, 2006 and 2007 are derived from our unaudited financial statements which appear elsewhere in this prospectus. Our historical results are not necessarily indicative of our results for any future period.

The following selected consolidated financial data should be read in conjunction with the section of this prospectus entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations*, and our consolidated financial statements (including the related notes thereto) included elsewhere in this prospectus.

| | Years Ended December 31, | | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

| | | | | | | (Unaudited) | |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 | 2007 |
| | (In Thousands, Except Percentages and Per Share Data) | | | | | | |
| Operating Data: | | | | | | | |
| Revenues | $9,242 | $9,788 | $9,874 | $11,225 | $13,356 | 6,323 | 6,883 |
| Gross profit | 3,037 | 2,304 | 3,325 | 3,870 | 4,684 | 2,136 | 2,427 |
| Gross profit % | 32.9 % | 23.5 % | 33.7 % | 34.5 % | 35.1 % | 33.8 % | 35.3 % |
| Operating expenses | 3,370 | 2,904 | 2,943 | 3,247 | 3,681 | 1,857 | 2,005 |
| Operating income (loss) | (334 ) | (601 ) | 382 | 623 | 1,003 | 280 | 423 |
| Other income | 544 | 310 | 26 | 51 | 116 | 87 | 39 |
| Total other income, (expense) net | 432 | 102 | (186 ) | (167 ) | (106 ) | (28 ) | (66 ) |
| Income (loss) before tax (expense) benefit | 98 | (498 ) | 196 | 455 | 897 | 251 | 356 |
| Net income (loss) | 168 | (337 ) | 71 | 391 | 604 | 136 | 261 |
| Earnings (loss) per share: | | | | | | | |
| Basic earnings (loss) per share | 0.06 | (0.11 ) | 0.02 | 0.13 | 0.19 | 0.04 | 0.08 |
| Diluted earnings (loss) per share | 0.05 | (0.11 ) | 0.02 | 0.12 | 0.19 | 0.04 | 0.08 |

| | At December 31, | | | | | At June 30, (Unaudited) | |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2006 | 2007 |
| | (In Thousands) | | | | | | |
| Balance Sheet Data: | | | | | | | |
| Cash and cash equivalents | $324 | $321 | $171 | $265 | $257 | $575 | $200 |
| Working capital | 3,230 | 2,857 | 2,878 | 3,123 | 4,151 | 3,225 | 4,935 |
| Total assets | 11,428 | 10,325 | 11,553 | 10,910 | 12,918 | 12,150 | 13,505 |
| Total current liabilities | 1,948 | 1,360 | 2,713 | 1,748 | 2,274 | 2,765 | 1,871 |
| Long-term obligations | 3,514 | 3,336 | 3,141 | 2,923 | 2,777 | 2,881 | 3,376 |
| Total shareholders equity | $5,965 | $5,629 | $5,699 | $6,238 | $7,200 | $6,504 | $7,638 |



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# SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table presents unaudited quarterly financial information for each of the ten quarters ended June 30, 2007. In the opinion of management, this information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation thereof. The operating results are not necessarily indicative of results for any future periods. Quarter-to-quarter comparisons should not be relied upon as indicators of future performance. Our operating results are subject to quarterly fluctuations as a result of a number of factors. See *Risk Factors*.



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# MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes attached hereto. This discussion contains forward-looking statements, which involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including, but not limited to, those discussed in Risk Factors and elsewhere in this prospectus.*

## Introduction

Our Management s Discussion and Analysis of Financial Condition and Results of Operation ( MD&A ) is intended to facilitate an understanding of our business and results of operations. MD&A consists of the following sections:

Overview: a summary of our business;
Results of Operations: a discussion of operating results;
Liquidity and Capital Resources: an analysis of cash flows, sources and uses of cash and financial position;
Contractual Obligations and Commercial Commitments;
Critical Accounting Policies: a discussion of critical accounting policies that require the exercise of judgments and estimates;
Impact of Recently Issued Accounting Pronouncements: a discussion of how we may be affected by recent pronouncements; and
Quantitative and Qualitative Disclosures About Market Risk.

## Overview

We design and manufacture customized state-of-the-art equipment used in the development, design and manufacture of advanced electronic components, materials and coatings for research and industrial applications. We offer a broad range of chemical vapor deposition, gas control and other equipment that is used by our customers to research, design and manufacture semiconductors, solar cells, carbon nanotubes, nanowires, LEDs and MEMS and industrial coatings, as well as equipment for surface mounting of components onto printed circuit boards. Our proprietary products are customized to meet the particular specifications of individual customers or manufactured as standardized products.

Based on our 25 years of experience, we provide leading-edge design and manufacturing solutions to our customers. We use our engineering, design and manufacturing expertise to provide technologically advanced equipment that enables laboratory and research scientists to develop the precise processes for the manufacture of next generation semiconductors and other electronic components as well as solar and energy applications and industrial applications. We also develop and manufacture production equipment based on our designs. We have built a significant library of design expertise, know-how and innovative solutions to assist our customers in developing these intricate processes. This library of solutions, along with our vertically integrated manufacturing facilities, allows us to provide superior design and manufacturing solutions to our customers on a cost effective basis.

For the three-year period 2004 to 2006, our revenues increased from $9.9 million to $13.4 million while our net pretax income increased from $196,000 to $897,000. We plan to continue building on this growth through expanded product offerings, increased marketing efforts and increased foreign sales as well as through current and expected product developments in our research laboratory.

In the fourth quarter of 2006, we began implementing a strategy to target opportunities in the research and development market, with a focus on higher-growth applications such as carbon nanotubes, nanowires, MEMS and LEDs. Our initial strategy is to introduce a line of proprietary standardized products and systems targeted for this market. Historically, we have manufactured our products for this market on a custom one-at-a-time basis to meet individual customers specific research requirements. Our new proprietary systems leverage the



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technological expertise we have developed through designing these custom systems onto a standardized basic core. This core can be easily adapted through a broad array of available add-on options to meet the diverse product and budgetary requirements of the research community. By manufacturing the basic core of these systems in higher volumes, we are able to reduce both the cost and delivery time for our systems. These systems, which we market and sell under the EasyTube product line, are sold to researchers at universities and laboratories in the United States and throughout the world.

Our core competencies in equipment design, as well as in software and systems manufacturing are used to engineer our finished products. Our proprietary Windows-based, real-time software application allows for rapid configuration and provides our customers with powerful tools to understand, optimize and repeatedly control their processes. Our vertically integrated manufacturing process allows us to control the process from the raw material stage, to when we send out finished products. This integrated process significantly reduces our costs, improves our quality and reduces the time it takes to fill and ship a customer s order.

In the fourth quarter of 2006, we began to broaden our First Nano product line and pursue a significantly larger share of the research and development market with additional equipment platforms under the First Nano EasyTube brand name. We have begun to market, quote and manufacture these products. In July 2007, we shipped the first model of a new series of products intended for the research and development market. We believe we will be successful with the multiple new products to be offered, as their design will be based on building blocks we have used in our previous systems over the years.

To support the increase in our existing product sales and the development and sales of the new First Nano products, we will need to increase our manufacturing capacity, hire additional personnel and expand our advertising, trade show and marketing budgets. Additionally, our First Nano research laboratory is being expanded with both additional laboratory test equipment, and the new First Nano products for demonstration purposes, we believe that this will help us remain in the forefront of carbon nanotube and nanowire research and production.

## Operating Divisions

We conduct our operations through three divisions: (1) CVD, including the First Nano product line ( CVD/First Nano ); (2) Stainless Design Concept ( SDC ); and (3) Conceptronic, including the Research International product line ( Conceptronic/Research ). Each division operates on a day-to-day basis with its own operating manager, while product development, sales and administration are managed at the corporate level.

***CVD/First Nano*** is a supplier of state-of-the-art chemical vapor deposition systems for use in the research and development and manufacturing of semiconductors, LEDs, carbon nanotubes, nanowires, solar cells, MEMS and a number of industrial applications. We use our expertise in the design and manufacture of chemical vapor deposition systems to work with laboratory scientists to bring state-of-the-art processes from the research laboratory into production, and to provide production equipment based on our designs.

***SDC*** designs and manufactures ultra-high purity gas and chemical delivery control systems for state-of-the-art semiconductor fabrication processes, LEDs, carbon nanotubes, nanowires, solar cells and a number of industrial applications. Our systems are sold both on a stand-alone basis as well as together with our CVD/First Nano systems. In addition, SDC s field service group provides our customers with high purity equipment installations, contract maintenance and equipment removal. SDC operates out of a 22,000 square foot facility fitted with Class 10 and Class 100 clean room manufacturing space.

***Conceptronic/Research*** designs and manufactures reflow ovens and rework stations for the printed circuit board assembly and semiconductor packaging industries. Our equipment is designed to melt solder in a controlled process to form superior connections between components, which creates complete electronic circuits for computers and telecommunications systems, as well as for the automotive and defense industries.

We also offer customized products for complex applications within the printed circuit board and other industries that use conveyor-type ovens in heating and drying applications.



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# Results of Operations

The following table sets forth certain operational data as a percentage of revenue for the periods indicated:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| Total revenue | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 66.3 % | 65.5 % | 64.9 % |
| Gross margin | 33.7 % | 34.5 % | 35.1 % |
| Selling, general and administrative expenses | 29.8 % | 28.9 % | 27.6 % |
| Operating income | 3.9 % | 5.5 % | 7.5 % |
| Interest and other income (expense), net | 1.9 % | 1.5 % | 0.8 % |
| Income before income taxes | 2.0 % | 4.1 % | 6.7 % |
| Income tax (expense) | 1.3 % | 0.6 % | 2.2 % |
| Net income | 0.7 % | 3.5 % | 4.5 % |

# Three and Six Months Ended June 30, 2007 compared to Three and Six Months Ended June 30, 2006

## Revenue

We recognize revenues and income 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. Revenues on custom production-type contracts are recorded on the basis of our 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 following table illustrates revenue by division for the three and six months ended June 30, 2006 and 2007.

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | Increase/ (Decrease) | % | 2006 | 2007 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | | | | | |
| CVD/ First Nano | $1,676 | $1,773 | $97 | 5.8 % | $3,539 | $3,886 | $347 | 9.8 % |
| SDC | 833 | 804 | (29 ) | (3.5 ) | 1,517 | 1,627 | 110 | 7.3 |
| Conceptronic/Research | 781 | 613 | (168 ) | (21.5 ) | 1,580 | 1,544 | (36 ) | (2.3) |
| Eliminations | (179 ) | (119 ) | 60 | | (313 ) | (174 ) | 139 | |
| Total revenue | $3,111 | $3,071 | $(40 ) | (1.3%) | $6,323 | $6,883 | $560 | 8.9 % |

Revenue for the three and six month periods ended June 30, 2007 was approximately $3,071,000 and $6,883,000 respectively, compared to approximately $3,111,000 and $6,323,000, respectively, for the three month and six month periods ended June 30, 2006. This represents a decrease of 1.3% for the comparable three month period and an 8.9% increase for the comparable six month period. While demand for our customized CVD systems and equipment provided by the First Nano product line remains strong, revenues for the current three and six month period were increasingly impacted during the periods by our decision to utilize some of our manufacturing resources towards broadening the First Nano product line, which we anticipate will add to our long-term growth and profitability.

## Gross Profit

Gross profit is the difference between revenue and cost of goods sold. Cost of goods sold consists of purchased material, labor and overhead to manufacture equipment or spare parts, cost of service, as well as factory and field support to customers under warranty. It also includes installation and paid service calls.



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The following table illustrates our gross profit by division for the three and six months ended June 30, 2006 and 2007:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | Increase/ (Decrease) | % | 2006 | 2007 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | | | | | |
| CVD/ First Nano | $771 | $792 | $21 | 2.7 % | $1,644 | $1,665 | $21 | 1.3 % |
| SDC | 195 | 234 | 39 | 20.0 | 264 | 397 | 133 | 50.4 |
| Conceptronic/Research | 100 | 146 | 46 | 46.0 | 228 | 365 | 137 | 60.1 |
| Total | $1,066 | $1,172 | $106 | 9.9 % | $2,136 | $2,427 | $291 | 13.6% |
| Gross Margin | 34.3 % | 38.1 % | | | 33.8 % | 35.3 % | | |

We generated gross profits of approximately $1,172,000 and $2,427,000 resulting in gross profit margins of 38.1% and 35.3% for the three and six months ended June 30, 2007, respectively, compared to gross profits of approximately $1,066,000 and $2,136,000 resulting in gross profit margins of 34.3% and 33.8% for the three and six months ended June 30, 2006 respectively. The increase is primarily attributable to the gross profit margins related to the product mix comprising our sales.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the cost of employees, consultants and contractors, as well as facility costs, sales commissions, marketing expenses, legal and accounting fees and marketing expenses.

The following table illustrates our selling, general and administrative expenses for the three and six months ended June 30, 2006 and 2007:

| | Six Months Ended June 30, | | | | Three Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | Increase/ (Decrease) | % | 2006 | 2007 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | | | | | |
| CVD/ First Nano | $471 | $486 | $15 | 3.2 % | $908 | $990 | $82 | 9.0 % |
| SDC | 178 | 229 | 51 | 28.7 | 333 | 443 | 110 | 33.0 |
| Conceptronic/Research | 293 | 238 | (55) | (18.8)% | 616 | 572 | (44 ) | (7.1 )% |
| Total | $942 | $953 | $11 | | $1,857 | $2,005 | $148 | |
| As a Percentage of Revenue | 30.3% | 31.0% | | | 29.4 % | 29.1 % | | |

Total selling, general and administrative expenses as a percentage of revenue was 29.1% for the six months ended June 30, 2007 as compared to 29.4% for the six months ended June 30, 2006. This decrease was primarily attributable to the higher revenues for the six months ended June 30, 2007 being partially offset by a combination of an increase in trade show expenses, increased payroll and benefit costs, increased general insurance and utility costs.

Total selling, general and administrative expenses as a percentage of revenue was 31.0% for the three months ended June 30, 2007 as compared to 30.3% for the three months ended June 30, 2006. This increase was primarily attributable to an increase in payroll and benefit costs, increased general insurance and utility costs partially offset by a decrease in sales commissions. Sales concluded in the current period were primarily by our direct sales personnel and therefore were not subject to outside sales commissions.

## Operating Income

Operating income was $218,000 and $423,000 for the three and six months ended June 30, 2007, respectively. This represents an increase of 74.4% and 51.1% compared to operating income of $125,000 and $280,000 for the three and six month periods ended June 30, 2006, respectively.



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## Other Income

Other income during the three months ended June 30, 2007 was approximately $34,000 compared to $11,000 for the three months ended June 30, 2006. This was primarily the result of the receipt of $28,000 which was previously written off as uncollectible in 2004.

Other income during the six months ended June 30, 2007 was approximately $39,000 compared to approximately $87,000 for the six months ended June 30, 2006. This was the result of the receipt of $70,000 during the three months ended March 31, 2006 which was previously written off as uncollectible in 2004.

## Income Tax Provision

For the three and six months ended June 30, 2007, we recorded a current income tax expense of approximately $74,000 and $192,000, respectively, that was reduced by a deferred tax benefit of approximately $39,000 and $97,000, respectively.

# 2006 compared to 2005

## Revenue

The following table illustrates our revenue by division for the years ended December 31, 2005 and 2006:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2005 | 2006 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $4,589 | $6,903 | $2,314 | 50.4 % |
| SDC | 3,034 | 3,650 | 616 | 20.3 % |
| Conceptronic/Research | 4,611 | 3,387 | (1,224 ) | (26.5%) |
| Eliminations | (1,009 ) | (584 ) | 425 | |
| Revenues | $11,225 | $13,356 | $2,131 | 19.0 % |

Overall growth in revenue in 2006 was 19%, an increase of $2.1 million from 2005. This growth in revenue is primarily due to the continuing increase in demand for our customized chemical vapor deposition equipment from our CVD/First Nano division, including sales of equipment from our First Nano product line which we acquired in May 2005, and gas and chemical delivery systems from our SDC division.

The decrease in revenue of our Conceptronic/Research division was due primarily to increased competition and price pressures resulting from new manufacturers based in the Far East as well as the shifting of our competitors domestic manufacturing facilities to the Far East, with the resulting cost reductions and lower selling prices of competitive products.

## Gross Profit

The following table illustrates our gross profit by division for the years ended December 31, 2005 and 2006:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2005 | 2006 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $1,936 | $2,960 | $ 1,024 | 52.9 % |
| SDC | 577 | 935 | 358 | 62.0 % |
| Conceptronic/Research | 1,357 | 789 | (568 ) | (41.9%) |
| Total | $3,870 | $4,684 | $ 814 | 21.0 % |
| Gross Margin | 34.5 % | 35.1 % | | |

Our gross profit in 2006 was $4.7 million, an increase of $0.8 million, or 21% over our gross profit of $3.9 million for 2005. Increased revenues primarily drove the increase. Gross margin was 35.1% in 2006 compared to 34.5% during the prior year. We have continued to achieve higher gross margins over the last three years, primarily as a result of our ability to spread our fixed costs over increased revenues.



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## Selling, General and Administrative Expenses

The following table illustrates our selling, general and administrative expenses by division for the years ended December 31, 2005 and 2006:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2005 | 2006 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $1,255 | $1,764 | $ 509 | 40.6 % |
| SDC | 684 | 719 | 35 | 5.1 % |
| Conceptronic/Research | 1,308 | 1,198 | (110 ) | (8.4%) |
| Total | $3,247 | $3,681 | $ 434 | 13.4 % |
| As a Percentage of Revenue | 28.9 % | 27.6 % | | |

Total selling, general and administrative expenses as a percentage of revenue decreased to 27.6% in 2006 from 28.9% in 2005, as a result of higher revenues. The increase of $0.4 million over 2005 was due primarily to a combination of increased payroll and benefit costs, in addition to increased general insurance and utility costs.

## Other Income

Other income for 2006 increased by $65,000 or 127%, from $51,000 in 2005, primarily due to the receipt of $92,400, which was previously written off as uncollectible.

## Income Tax Provision

As of December 31, 2006, we had approximately $40,000 and $277,000 remaining of our federal and state net operating loss carryforwards, respectively. In 2006, we recorded an income tax expense of $293,000, which was reduced by using $49,000 of available net operating losses. This resulted in an effective tax rate for 2006 of 32.6%. Our future effective income tax rate depends on various factors, such as recognizing certain items as income and expenses for financial statement purposes versus tax purposes, the level of expenses that are not deductible for tax purposes, changes in our deferred tax assets and liabilities, tax legislation and the effectiveness of our tax planning strategies.

# 2005 compared to 2004

## Revenue

The following table illustrates our revenue by division for the year ended December 31, 2004 and 2005:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2004 | 2005 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $2,885 | $4,589 | $ 1,704 | 59.1 % |
| SDC | 2,843 | 3,034 | 191 | 6.7 % |
| Conceptronic/Research | 4,948 | 4,611 | (337 ) | (6.8%) |
| Eliminations | (802 ) | (1,009 ) | (207 ) | |

| | | | | |
|---|---|---|---|---|
| Revenues | $ 9,874 | $ 11,225 | $ 1,351 | 13.7 % |

Total revenue for 2005 was $11.2 million, an increase of almost $1.4 million, or 13.7%, from $9.9 million for 2004. This was due primarily to the increase in demand for customized chemical vapor deposition equipment from our CVD/First Nano division, including the introduction of the First Nano product line, and chemical delivery systems from our SDC division.

The decrease in revenue of our Conceptronic/Research division was due primarily to increased competition and price pressures resulting from new manufacturers based in the Far East as well as the shifting of our competitors domestic manufacturing facilities to the Far East, with the resulting cost reductions and lower selling prices of competitive products.



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## Gross Profit

The following table illustrates our gross profit by division for the years ended December 31, 2004 and 2005:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2004 | 2005 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $ 959 | $ 1,936 | $ 977 | 101.9 % |
| SDC | 836 | 577 | (259) | (31.0%) |
| Conceptronic/Research | 1,530 | 1,357 | (173) | (11.3%) |
| Total | $ 3,325 | $ 3,870 | $ 545 | 16.4 % |
| Gross Margin | 33.7 % | 34.5 % | | |

Our gross profit was $3.9 million in 2005, an increase of 16% compared to a gross profit of $3.3 million for 2004. The gross margin of the CVD/First Nano division increased to 42% for 2005 compared to 33% in 2004. This increase was attributed to the division's ability to spread our fixed costs over greater revenues, as well as our continuous efforts to reduce variable costs. The gross margin of the Conceptronic/Research division decreased slightly, while the gross margin of the SDC division decreased to 19.0% from 29.4% as a result of an unusually high cost of materials required for certain projects completed during 2005.

## Selling, General and Administrative Expenses

The following table illustrates our selling, general and administrative expenses by division for the year ended December 31, 2004 and 2005:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2004 | 2005 | Increase/ (Decrease) | % |
| | (In Thousands, Except Percentages) | | | |
| CVD/First Nano | $ 944 | $ 1,255 | $ 311 | 32.9 % |
| SDC | 641 | 684 | 43 | 6.7 % |
| Conceptronic/Research | 1,358 | 1,308 | (50) | 3.7 % |
| Total | $ 2,943 | $ 3,247 | $ 304 | 10.3 % |

| | | |
|---|---|---|
| As a percent of revenue | 29.8 % | 28.9 % |

Total selling, general and administrative expenses increased by $300,000 to $3.2 million in 2005, as compared to $2.9 million in 2004. This was primarily due to a combination of increased payroll and benefit costs, as well as increased general insurance and utility costs.

## Other Income

Other income for the year ended December 31, 2005 was approximately $51,000 which represented miscellaneous sources of revenue earned by the company, including sale of scrap metal and parking space rental.

## Income Tax Provision

Our income tax provision was reduced by $60,000 in 2005 from 2004. This reduction was primarily attributable to the timing of recognition of revenue, which may be different for tax purposes as compared to financial statement purposes.

# Liquidity and Capital Resources

# June 30, 2007

As of June 30, 2007, we had aggregate working capital of approximately $4.9 million as compared to almost $4.2 million at December 31, 2006, an increase of $784,000. This increase was primarily due to $585,000 being reclassified from short term borrowing to long term as a result of the new three year Revolving Credit Agreement in addition to increases in costs and estimated earnings in excess of billings on uncompleted contracts of approximately $1,070,000 and inventories of $199,000 partially offset by a decrease in accounts receivable of $891,000.



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Accounts receivable, net of allowance for doubtful accounts as of June 30, 2007 was approximately $1.5 million as compared to $2.4 million as of December 31, 2006, a decrease of approximately $891,000. This decrease is primarily attributable to timing of shipments and customer payments.

Inventories as of June 30, 2007 were approximately $2.9 million, as compared to approximately $2.7 million as of December 31, 2006, an increase of $199,000 or 7.4%. Work-in-process remained the major component of our inventory.

We maintained a revolving line of credit with a bank permitting us to borrow on a revolving basis amounts up to $1,250,000. This line of credit was terminated as of June 1, 2007.

As of June 1, 2007, we entered into a new $2 million three-year revolving credit facility with the same bank. Interest on the unpaid principal balance on this facility accrues at either (i) LIBOR plus 2.5%, or (ii) the bank s Prime Rate plus .25%. Borrowings under the facility are secured by substantially all of our personal property. As of June 30, 2007, $585,000 was outstanding on this facility.

We also had an equipment line of credit of $250,000 with the same bank through which we were permitted to borrow up to 100% of the purchase price of equipment. This line of credit was discontinued with the inception of the $2 million three year revolving credit facility noted above.

The table below provides selected consolidated cash flow information for the periods indicated:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2007 |
| | (In Thousands) | |
| Net cash provided by (used in) operating activities | 28 | (163) |
| Net cash used in investing activities | (191) | (375) |
| Net cash provided by financing activities | 472 | 480 |

## Cash Flows from Operating Activities

Cash used in our operating activities was $163,000 during the six months ended June 30, 2007 compared to $28,000 provided for during the six months ended June 30, 2006. Net cash used in our six months ended June 30, 2007 operating activities consisted of cash provided by net income of $261,000 and $198,000 of non-cash expense adjustments (including $212,000 of depreciation and amortization and $85,000 of stock based compensation less $97,000 of deferred taxes and a $2,000 reduction in the reserve for doubtful accounts) offset by net changes in operating assets and liabilities. The net changes in operating assets and liabilities using cash was primarily an increase in costs in excess of billings on uncompleted contracts less the cash that was provided by a decrease in accounts receivable, inventories and deferred revenue.

## Cash Flows from Investing Activities

We used $375,000 of cash during the six months ended June 30, 2007 primarily to purchase capital equipment used in our machine shop. This compares to $191,000 of cash primarily used to design our proprietary software application process during the six months ended June 30, 2006.

## Cash Flows from Financing Activities

Cash provided by our financing activities was $480,000 during the six months ended June 30, 2007. This consisted primarily of $375,000 of net borrowings on our revolving line of credit, $91,000 from the exercise of stock options and $140,000 received from an equipment loan, which was partially offset by $126,000 paid on long-term debt.

This compares to $472,000 of cash provided by financing activities during the six months ended June 30, 2006 which consisted of $440,000 of net short-term bank borrowings plus $115,000 received from an equipment loan and $44,000 from the exercise of stock options which was partially offset by $127,000 paid on long-term debt.

# December 31, 2006

As of December 31, 2006, we had available cash and cash equivalents of $257,000 compared to $265,000 as of December 31, 2005. Our working capital increased by over $1.1 million to almost $4.2 million as of



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December 31, 2006 compared to $3.1 million at December 31, 2005. The increase in working capital was primarily a result of $604,000 of net income increased by certain non-cash charges, including $358,000 of amortization and depreciation and $440,000 of other non-cash expenses, plus $188,000 of net cash raised from the exercise of stock

options, less $238,000 of capital expenditures and $230,000 of payments of long-term debt.

Accounts receivable, net of allowance for doubtful accounts increased by approximately $483,000 or 25.5% at December 31, 2006 to $2.4 million compared to $1.9 million at December 31, 2005. This increase is primarily attributable to timing of shipments and customer payments.

In July 2006, we sold equipment to a customer for a purchase price of 104,482 shares of common stock. Between December 1, 2007 and March 12, 2008, we have the option to demand that the customer make a cash payment of $251,130, the original purchase price of the equipment, in exchange for the return of those shares. The customer's obligation to make the payment upon our exercise of the option is secured by a perfected lien upon the purchased equipment and the pledged common stock. This transaction is reflected on our balance sheet as an investment.

Inventory as of December 31, 2006 was approximately $2.7 million, representing an increase of approximately $637,000 or 30.8% over the inventory balance of $2.1 million as of December 31, 2005. The increase in inventory was comprised primarily of an increase in work-in-process of approximately $662,000. The build-up of work-in-process is indicative of an increase in orders that we are experiencing in addition to our transition to building a more standardized product line in order to reduce the time needed to fill a customer's order. Custom orders still comprise a majority of our revenues.

In 2006, our credit line with a bank, which permitted us to borrow on a revolving basis, was amended to reflect an increase in the amount we are permitted to borrow from $1 million to $1.25 million. As of December 31, 2006, the outstanding balance on this facility was $210,000 as compared to $100,000 at December 31, 2005. This line of credit was terminated as of June 1, 2007 upon the entry into our new $2 million, three year revolving credit facility.

We also had a $250,000 line of credit available for equipment purchases from the same bank permitting us to borrow up to 100% of the purchase price of such equipment. The amount borrowed was immediately converted into a five-year term loan bearing interest at the bank's prime rate plus 1.25%. As of December 31, 2006, there was approximately $77,000 outstanding on this facility. Borrowings under this facility were collateralized by the equipment purchased. This facility was discontinued with the entry into our new $2 million revolving credit facility.

The table below provides selected consolidated cash flow information for the periods indicated:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2005 | 2006 |
| | (In Thousands) | | |
| Net cash (used in) provided by operating activities | $ (490 ) | $ 1,395 | $ 71 |
| Net cash used in investing activities | (351 ) | (486 ) | (239 ) |
| Net cash provided by (used in) financing activities | 690 | (815 ) | 160 |

## Cash Flows from Operating Activities

Cash provided by our operating activities was $71,000 in 2006, compared to $1.4 million of cash provided by such activities during 2005 and $490,000 of cash used in 2004. Cash provided by our 2006 operating activities consisted of $604,000 of net income, $798,000 of non-cash expense adjustments (including $358,000 of depreciation and amortization, $169,000 of stock-based compensation and $272,000 of deferred taxes). These changes were offset by net changes in operating assets and liabilities. The cash used in the net changes in operating assets and liabilities was primarily used for an increase in accounts receivable of $482,000, an increase in investments of $251,000 and an increase in inventory of $552,000. In 2005, the $1.4 million of cash provided was primarily due to a decrease in both accounts receivable and costs in excess of billings on uncompleted contracts. In 2004, cash was used as a result of an increase of both accounts receivables and costs in excess of billings on uncompleted contracts.

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## Cash Flows from Investing Activities

We used $239,000 of cash in 2006 primarily to purchase equipment used in the machine shop and to purchase research and development equipment. This compares to $486,000 and $351,000 of cash primarily used in 2005 and in 2004, respectively, to design our proprietary software application process. Due to our decision in the fourth quarter in 2006 to broaden our First Nano EasyTube product line to pursue a significantly larger share of the research and development market for our products, we anticipate that our future outlays of cash for investing activities will increase.

## Cash Flows from Financing Activities

Cash provided by our financing activities was $160,000 in 2006, consisting primarily of $188,000 from the exercise of stock options, $112,000 of net short-term bank borrowings on a line of credit and $90,000 received from an equipment loan. This was partially offset by $230,000 paid on long-term debt. This compares to $815,000 of cash used in financing activities in 2005 primarily by the reduction of net short-term debt of $750,000 and the payment of long-term debt in the amount of $213,000 which was partially offset by $148,000 of cash received from the exercise of stock options. In 2004, cash provided by financing activities was $690,000, primarily as a result of an increase in short-term debt of $850,000, less payments of long-term debt of $160,000.

# Contractual Obligations and Commercial Commitments

We had the following contractual obligations and commercial commitments as of December 31, 2006:

| Contractual obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Building Mortgages | $ 2,886 | $ 169 | $ 1,130 | $ 375 | $ 1,212 |
| Equipment Leases | 117 | 56 | 37 | 24 | 0 |
| Total contractual obligations | $ 3,003 | $ 225 | $ 1,167 | $ 399 | $ 1,212 |

## Off-Balance Sheet Arrangements

As of December 31, 2006, we did not have any off-balance sheet arrangements as defined under the applicable regulations of the Securities and Exchange Commission (the SEC ).

# Critical Accounting Policies

The MD&A discusses our consolidated financial statements that have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as revenues on long-term contracts recognized on the percentage-of-completion method, allowances for doubtful accounts, depreciation and amortization, tax provisions and product warranties.

A critical accounting policy is one that is both important to the presentation of our financial position and results of operations, and requires management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue and Income Recognition.* We recognize revenues and income 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 our 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, Costs 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 on uncompleted contracts, represents amounts billed in excess of revenues earned.

*Inventory Valuation.* We value our inventory at the lower of cost (determined on the first-in, first-out method) or market. We regularly review inventory quantities and record a write-down for excess and obsolete inventory. The write-down is primarily based on historical inventory usage adjusted for expected changes in product demand and production requirements.

*Deferred Tax Asset and Liability.* Deferred tax assets and liabilities are determined based on the estimated future tax effects of temporary differences between the financial statements and tax bases of assets and liabilities, as measured by the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax assets and liabilities. A valuation allowance is not considered necessary by management since it is more likely than not that the deferred tax asset will be realized. An allowance may be necessary in the future based on changes in economic conditions.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance is based on historical experience, credit evaluations, specific customer collection history and any customer-specific issues we have identified. Since a significant portion of our revenue is derived from the sale of high-value systems, a significant dollar portion of our accounts receivable is often concentrated in a relatively small number of customers. A significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of our accounts receivable and our future operating results.

*Product Warranty.* We provide a limited warranty, generally for 12 months, to our customers. While our warranty costs have historically been within our expectations and we believe that the amounts accrued for warranty expenditures are sufficient for all systems sold through December 31, 2006, we cannot guarantee that we will continue to experience a similar level of predictability with regard to warranty costs. In addition, technological changes or previously unknown defects in raw materials or components may result in more extensive and frequent warranty service than anticipated, which could result in an increase in our warranty expense.

# Impact of Recently Issued Accounting Pronouncements

In February 2006, the Financial Accounting Standards Boards ( FASB ) issued Statement No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB No. 133, Accounting for Derivative Instruments and Hedging Activities, and FASB No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. FASB No. 155 provides the framework for fair value re-measurement of any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, as well as establishing a requirement to evaluate interests in securitized financial assts to identify interests. FASB No. 155 further amends FASB No. 140 to eliminate the prohibition on a qualifying special purpose entity's holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The guidance in FASB No.155 also clarifies which interest-only strips and principal-only strips are not subject to the requirements of FASB No. 133 and which concentrations of credit risk in the form of subordination are not embedded derivatives. This Statement is effective for financial instruments acquired or issued after the beginning of an entity's first year that begins after September 15, 2006. FASB No. 155 is not expected to have a material impact on our consolidated financial statements.

In March 2006, FASB issued Statement No. 156 ( FASB No. 156 ), Accounting for the Servicing of Financial Assets, an amendment of FASB Statement No. 140. FASB No. 156 requires the recognition of a servicing asset or servicing liability under certain circumstances when an obligation to service a financial asset occurs by entering into a service contract. FASB No.156 also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value utilizing the amortization method or the fair market value method. FASB No. 156 is effective at the beginning of the first year that begins after September 15, 2006. FASB No. 156 is not expected to have a material effect on our consolidated financial statements.



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In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for the uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FASB Interpretation No. 48 is not expected to have a material impact on our consolidated financial statements.

In September 2006, FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The other accounting pronouncements affected include Statements No. 107, Disclosures about Fair Value of Financial Instruments; No. 115, Accounting for Certain Investments; No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations; No. 133, Accounting for Derivative Instruments and Hedging Activities. Statement No. 157 is effective for financial statements issued for fiscal years ending after November 15, 2007 and interim periods within those fiscal years. Statement No. 157 is not expected to have a material impact on our consolidated financial statements.

In February 2007, FASB issued Statement No. 159 ( FASB 159 ), The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business

entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The measurement option is applied to:

Recognized financial assets and financial liabilities except for:
An investment in a subsidiary that the entity is required to consolidate.
An interest in a variable interest entity that the entity is required to consolidate.
Employees' and plans' obligations for pension benefits, other postretirement benefits, post-employment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements.
Financial assets and financial liabilities recognized under leases as defined in FASB Statement No. 13, Accounting for Leases.
Deposit liabilities, withdrawable on demand, of banks, savings and loan associates, credit unions, and other similar depository institutions.
Financial instruments that are in whole, or in part, classified by the user as a component of shareholders' equity.
Firm commitments that would otherwise not be recognized at inception and that involve only financial instruments.
Nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services.
Host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument.

The fair value option:

May be applied instrument by instrument, with a few exceptions, such as investments other wise accounted for by the equity method.
Is irrevocable (unless a new election date occurs).
Is applied only to entire instruments and not to portions of instruments.



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The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. FASB 159 is not expected to have a material impact on our consolidated financial statements.

# Quantitative and Qualitative Disclosures About Market Risk

## Foreign Currency Risk

Currently, we have no exposure to foreign currency risk as all our sales transactions, assets and liabilities are denominated in the U.S. dollar.

## Interest Rate Risk

Our exposure to interest rate risk is limited to interest earned from our money market accounts and our interest expense on short-term and long-term borrowings. Currently, this exposure is not significant. Substantial increases in short-term and long-term borrowings to fund growth or make investments, combined with actual changes in interest rates could adversely affect our future results of operations.



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# OUR BUSINESS

We design and manufacture customized state-of-the-art equipment used in the development, design and manufacture of advanced electronic components, materials and coatings for research and industrial applications. We offer a broad range of chemical vapor deposition, gas control and other equipment that is used by our customers to research, design and manufacture semiconductors, solar cells, carbon nanotubes, nanowires, LEDs and MEMS, and industrial coatings, as well as equipment for surface mounting of components onto printed circuit boards. Our proprietary products are generally customized to meet the particular specifications of individual customers. We also offer a number of standardized products that are based on the expertise and know how we have developed in designing and manufacturing our customized products.

Based on our 25 years of experience, we provide leading-edge design and manufacturing solutions to our customers. We use our engineering, design and manufacturing expertise to provide technologically advanced equipment that enables laboratory and research scientists to develop the precise processes for the manufacture of next generation semiconductors and other electronic components. We also develop and manufacture production equipment based on our designs. We have built a significant library of design expertise, know-how and innovative solutions to assist our customers in developing these intricate processes. This library of solutions, along with our vertically integrated manufacturing facilities, allows us to provide superior design and manufacturing solutions to our customers on a cost effective basis.

For the three-year period 2004 through 2006, our revenues increased from $9.9 million to $13.4 million, while our net pretax income increased from $196,000 to $897,000. We plan to continue building on this growth through our expanded product offerings, increased marketing efforts, increased foreign sales and through current and expected product developments in our research laboratory.

In the fourth quarter of 2006, we began implementing a strategy to target opportunities in the research and development market, with a focus on higher-growth applications such as carbon nanotubes, nanowires, MEMS and LEDs. To expand our penetration into this market, we are introducing a line of proprietary standardized products and systems initially targeted at this market. Historically, we have manufactured our products for this market on a custom one-at-a-time basis to meet our individual customer s specific research requirements. Our new proprietary systems leverage the technological expertise that we have developed through designing these custom systems onto a standardized basic core. This core can be easily adapted through a broad array of available add-on options to meet the diverse product and budgetary requirements of the research community. By manufacturing the basic core of these systems in higher volumes, we are able to reduce both the cost and delivery time for our systems. These systems, which we market and sell under the EasyTube product line, are sold to researchers at universities and laboratories in the United States and throughout the world.

We also intend to continue growing the sales of our proprietary standard and custom systems by building on the success of our installed customer base of approximately 200 customers to whom we have sold systems within the last three years. Our customer base includes several Fortune 500 companies. Historically, revenues have grown primarily through sales to existing customers with additional capacity needs or other new requirements, as well as to new customers. During the year ended December 31, 2006, over 65% of our revenues were derived from sales to repeat customers. We have generally gained new customers through word of mouth, the movement of personnel from one company to another, and limited print advertising and trade show attendance. We are now increasing the awareness of our company in the marketplace with results from our internal research laboratory, which we established in the third quarter of 2006, as well as improved sales contacts from increased participation in trade shows. We are also in the process of implementing a new Internet advertising strategy, and plan to increase the size of our sales force.

The core competencies we have developed in equipment and software design, as well as in systems manufacturing, are used to engineer our finished products. Our proprietary Windows-based, real-time, software application allows for

rapid configuration, and provides our customers with powerful tools to understand, optimize and repeatedly control their processes. Our vertically integrated structure allows us to control the manufacturing process, from bringing raw metal and components into our manufacturing facilities to shipping out finished products. These factors significantly reduce our costs, improve our quality and reduce the time it takes from customer order to shipment of our products.



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# OPERATING DIVISIONS

We conduct our operations through three divisions: (1) CVD, including the First Nano product line ( CVD/First Nano ); (2) Stainless Design Concept ( SDC ); and (3) Conceptronic, including the Research International product line ( Conceptronic/Research ). Each division operates on a day-to-day basis with its own operating manager, while product development, sales and administration are managed at the corporate level.

***CVD/First Nano*** is a supplier of state-of-the-art chemical vapor deposition systems for use in the research, development and manufacturing of semiconductors, LEDs, carbon nanotubes, nanowires, solar cells and a number of industrial applications. We utilize our expertise in the design and manufacture of chemical vapor deposition systems to work with laboratory scientists to bring state-of-the-art processes from the research laboratory into production, as well as to provide production equipment based on our designs.

***SDC*** designs and manufactures ultra-high purity gas and chemical delivery control systems for state-of-the-art semiconductor fabrication processes, LEDs, carbon nanotubes, nanowires, solar cells and a number of industrial applications. Our systems are sold on a stand-alone basis, as well as together with our CVD/First Nano systems. In addition, SDC s field service group provides our customers with ultra-high purity equipment installations, contract maintenance and equipment removal. SDC operates out of a 22,000 square foot facility fitted with Class 10 and Class 100 clean room manufacturing space located in Saugerties, New York.

We believe that SDC s gas management systems and application-specific chemical delivery control systems are among the most advanced available. We further believe that SDC is differentiated from our competitors, through our intimate understanding of how the systems in which our products are incorporated are actually used in field applications. We have gained this understanding as a result of having designed and built complex process gas systems for CVD/First Nano, as well as for many of the world s leading semiconductor manufacturers, research laboratories and universities.

***Conceptronic/Research*** designs and manufactures reflow ovens and rework stations for the printed circuit board assembly and semi-conductor packaging industries. Our equipment is designed to melt solder in a controlled process to form superior connections between components. This, in turn, creates complete electronic circuits for computers and telecommunications systems, as well as for the automotive and defense industries.

To address pricing pressure in what is now a mature industry for standardized reflow ovens, we have began to offer customized products for complex heating and drying applications. We expect that this will maintain and potentially improve our future profit margins in this product line.

# OUR COMPETITIVE STRENGTHS

We believe we are a leader in the markets we serve as a result of our following competitive strengths:

***Technical Expertise.*** We have been designing and manufacturing state-of-the-art, innovative and proprietary standard

and custom chemical vapor deposition, gas control and related systems for 25 years. We maintain a highly trained team of experienced mechanical, chemical, electrical and software engineers, as well as manufacturing, testing and support personnel. Our engineering group possesses core competencies in product applications, software, system controls, chemical vapor deposition, vacuum systems, ultra-high purity gas and chemical delivery, product heating and process chamber design. We believe this expertise enables us to provide high quality, technically advanced, integrated and innovative solutions to our customers, many of whom are on the leading edge of technology, research and production.

***Leveraging our Experience.*** We have significantly enhanced our design and manufacturing expertise over the years through the process of responding to customer requests for creative and often unique equipment solutions. The equipment we design and manufacture in response to these customer requests and the engineering solutions we devise in doing so remain proprietary to us. We use this equipment and these engineering solutions to improve existing products, develop new products for other customers and as building blocks for our future equipment designs.



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***Experienced Management Team.*** We are led by a highly experienced management team. Our CEO has over 40 years of industry experience, including 25 years with our company. Our three division managers have an average of over 16 years of process and equipment design experience and an average of 12 years with our company or companies whose assets we have acquired.

***Vertical Integration***. We employ a vertically integrated structure in our operations, from the design and manufacture of many of the sophisticated components used in our products, to the final assembly of our systems. For example, our machine shop fabricates the frame, sheet metal and machined components that are incorporated into our chemical vapor deposition, gas control systems and reflow ovens. We also manufacture the quartzware utilized in our chemical vapor deposition systems, as well as the quartzware we sell for other customer requirements. All painting, electrical and mechanical assembly and product testing is done by our personnel. Our software engineers and programmers develop the software that runs our products. This vertically integrated structure enables us to customize systems to customer requirements, reduce delivery times of our products, maintain a high level of quality control, reduce the effect of supplier disruptions and deliver a better and lower cost product.

***Established and Diversified Customer Base.*** We have long-standing relationships with many of our largest customers. In 2006, over 65%of our revenues resulted from sales to repeat customers. We sell to a geographically diverse base of customers across a variety of markets, including leading semiconductor and wafer manufacturers, research laboratories, universities and industrial manufacturers. In 2006, our largest customer accounted for approximately 9% of our revenue and in 2005, no single customer accounted for more than 12% of our revenue. No other customer represented more than 6.8% or 6.5% of our total revenue in the years 2005 or 2006, respectively. Our largest customer was different in each of these years.

The geographic and market distribution of our revenues for the years 2005 and 2006 were as follows:

| Geographic | 2005 | 2006 |
|---|---|---|
| | (In Thousands) | |
| North America | $ 8,178 | $ 9,522 |
| Asia | 2,244 | 2,209 |
| Europe | 789 | 1,194 |
| South America | 12 | 418 |