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CVD EQUIPMENT CORP
Form 10QSB
May 14, 2003

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US SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB

(Mark One)

- (X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended 3-31-03
- () TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE EXCHANGE ACT
For the transition period from _____ to _____
- Commission file number 2-97210-NY

CVD EQUIPMENT CORPORATION
(Exact name of small business issuer as specified in its charter)

NEW YORK
(State or other jurisdiction of incorporation or organization)

11-2621692
(IRS Employer Identification Number)

1860 SMITHTOWN AVENUE, RONKONKOMA, NY 11779
(Address of principal executive offices)

631-981-7081
(Issuers Telephone Number)

(Former name, former address, and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

3,039,100 SHARES OF COMMON STOCK, \$.01 PAR VALUE AS OF 5-14-03

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CVD EQUIPMENT CORPORATION NOTE TO FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2003

BASIS OF FINANCIAL STATEMENTS

The financial data is subject to year end audit and does not claim to be a complete presentation since note disclosure under generally accepted accounting procedures is not included. Note disclosures required under generally accepted accounting procedures are included in the Company's audited financial statements filed as part of Form 10-KSB for the year ended December 31, 2002. Form 10-QSB should be read in conjunction with these financial statements.

The results of operations for the three months are not necessarily indicative of those for the full year. In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to fairly present the financial position and the results of operation for the periods indicated.

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MANAGEMENT'S DISCUSSION

INTRODUCTION

Statements contained in this Report on Form 10-QSB that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including without limitation, statements regarding industry trends, strategic business development, pursuit of new markets, competition, results from operations, and are subject to the safe harbor provisions created by that statute. A forward-looking statement may contain words such as "intends", "plans", "anticipates", "believes", "expect to", or words of similar import. Management cautions that forward-looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, marketing success, product development, production, technological difficulties, manufacturing costs, and changes in economic conditions in the markets the Company serves. The Company undertakes no obligation to release revisions to forward-looking statements to reflect subsequent events, changed circumstances, or the occurrence of unanticipated events.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward looking statements. These forward looking statements were based on various factors and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forward looking statements, include, but are not limited to: competition in the Company's existing and potential future

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product lines of business; the Company's ability to obtain financing on acceptable terms if and when needed; uncertainty as to the Company's future profitability, uncertainty as to the future profitability of acquired businesses or product lines, uncertainty as to any future expansion of the company. Other factors and assumptions not identified above were also involved in the derivation of these forward looking statements, and the failure of such assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward looking statements.

REVENUE RECOGNITION

CVD recognizes and identifies on its financial statements, revenue on a percent complete methodology for contracts falling under SOP 81-1 and recognizes revenues on a completed contract methodology for contracts falling under SAB 101. CVD feels this is the most accurate and consistent methodology to meet the requirements of the two regulations.

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	MARCH 31 2003 (UNAUDITED)	DECEMBER 31 2002 (AUDITED)
	-----	-----
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 371,708	\$ 323,537
Accounts receivable, net	2,500,692	1,852,794
Cost in excess of billings on uncompleted contracts	947,906	783,646
Inventories	1,640,221	2,023,487
Other current assets	232,833	194,232
Total Current Assets	5,693,360	5,177,696
Property, Plant and Equipment, net	5,592,732	5,630,375
Deferred Income Taxes	344,074	344,074
Other Assets	153,043	138,974
Intangible Assets, net	133,038	136,393
Total Assets	\$11,916,247	\$11,427,512
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,377,569	\$ 938,056
Accrued expenses	497,241	336,702
Billings in excess of costs on uncompleted contracts	-	146,387
Short-term notes payable	350,000	350,000
Short-term borrowings	50,000	-
Current maturities of long-term debt	179,907	177,124
Total Current Liabilities	2,454,717	1,948,269
Long-term Debt, net of current portion	3,467,748	3,513,783
Total Liabilities	5,922,465	5,462,052
Commitments and Contingencies		
Stockholders' Equity		
Common stock - \$0.01 par value -10,000,000 shares authorized;		

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3,039,100 shares issued & outstanding	30,391	30,391
Additional paid-in capital	2,902,149	2,902,149
Retained earnings	3,061,242	3,032,920
Total Stockholders' Equity	5,993,782	5,965,460
Total Liabilities and Stockholders' Equity	\$11,916,247	\$11,427,512

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED MARCH 31	
	2003 (UNAUDITED)	2002 (AUDITED)
	-----	-----
Revenue		
Revenue on completed contracts	\$ 2,530,781	\$ 1,215,023
Revenue on uncompleted contracts	1,096,356	674,896
Total Revenue	3,627,137	1,889,919
Costs of Revenue		
Cost on completed contracts	2,130,790	931,667
Cost on uncompleted contracts	523,495	317,649
Total Costs of Revenues	2,654,285	1,249,316
Gross Profit	972,852	640,603
Operating Expenses		
Selling and shipping	353,993	175,402
General and administrative	580,498	494,226
Total Operating Expenses	934,491	669,628
Operating Income (Loss)	38,361	(29,025)
Other Income (Expense)		
Interest income	124	9,828
Interest expense	(62,969)	(23,002)
Gain on sale of fixed assets	-	2,500
Other income	67,976	16,488
Total Other Income	5,131	5,814
Income (Loss) Before Taxes	43,492	(23,211)
Income Tax Provision (Benefit)	(15,170)	9
Net Income (Loss)	28,322	(23,202)
Earnings Per Share		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Weighted Average Shares		
Basic	3,039,100	3,032,325
Diluted	3,050,228	3,209,801

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CVD EQUIPMENT CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE M 2003 (UNAUDITED)

CASH Flows from Operating Activities	
Net Income (Loss)	\$ 28,322
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	90,221
Gain on sale of fixed assets	-
Bad debt provision	(3,311)
(Increase) decrease in:	
Accounts receivable	(644,588)
Cost in excess of billings on uncompleted contracts	(164,260)
Inventory	383,266
Other current assets	(38,599)
Other assets	(24,095)
Increase (decrease) in:	
Accounts payable	439,516
Accrued expenses	160,537
Billing in excess of costs on uncompleted contracts	(146,387)
Net Cash Provided By Operating Activities	80,622
Cash Flows from Investing Activities	
Capital expenditures	(39,200)
Proceeds from sale of fixed assets	-
Net Cash Used in Investing Activities	(39,200)
Cash Flows from Financing Activities	
Proceeds from short-term borrowings	50,000
Payments of long-term debt	(43,251)
Net Cash Provided (Used) By Financing Activities	6,749
Net Increase (Decrease) in Cash and cash Equivalents	48,171
Cash and Cash Equivalents at the Beginning of the Quarter	323,537
Cash and Cash Equivalents at the End of the Quarter	\$ 371,708

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ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2003

REVENUE

An increase in volume resulted in first quarter of 2003 revenue being \$3,627,137, a 92% increase from first quarter of 2002 revenue of \$1,889,919.

COSTS AND EXPENSES

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The cost of revenue increased to \$2,654,285 in first quarter of 2003 as compared to \$1,249,316 in first quarter of 2002. Of this \$1,404,969 increase, approximately \$1,070,000 is attributed to material, \$9,000 to freight in, \$183,000 to salaries, \$24,000 to utilities and \$18,000 to real estate taxes.

Selling and shipping expenses increased to \$353,993 in first quarter of 2003 from \$175,402 in first quarter of 2002. Of this \$178,591 increase, approximately \$155,000 is attributed to commissions and \$31,000 to freight out expense, which is offset by a decrease of \$10,000 to advertising expense.

General and Administrative expenses increased to \$580,498 in first quarter of 2003 from \$494,226 in first quarter of 2002. Of this \$86,272 increase, approximately \$90,000 to salaries, \$5,000 to travel expense and \$6,300 to depreciation, which is offset by a decrease of \$7,600 to legal fees and \$9,300 to consulting fees.

Interest expense increased by \$39,967 from \$23,002 in first quarter of 2002 to \$62,969 in first quarter of 2003, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased in March 2002.

Other income increased by \$51,488 from first quarter of 2002 to first quarter of 2003. Of this increase, \$64,000 is attributed to collection of accounts receivable exceeding the \$369,000 booked as part of the purchase of the assets.

LIQUIDITY AND CAPITAL RESOURCES

By the end of the first quarter of 2003, the Company's cash position increased to \$371,708 from \$323,537 at the beginning of the year. The increase in cash is mainly attributed to the daily operating activities.

At the end of the first quarter of 2003, the Company's account receivable position increased to \$2,500,692 from \$1,852,794 at the beginning of the year. This increase was attributable to timing of customer payments and billings.

At the close of the first quarter of 2003, the Company's backlog decreased to approximately \$1,827,563 from approximately \$3,816,877 at the beginning of the year. This decrease is mainly attributed to shipments delayed from the fourth quarter of 2002 to the first quarter of 2003. This delay resulted from the reduction in productivity of the CVD and Conceptronic divisions due

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to their relocation to the new facility in the fourth quarter of 2002.

The Company believes that its cash and cash equivalents, cash flow from operations and available credit facilities will be sufficient to meet its working capital and investment requirements for the next twelve months. However, future growth, including potential acquisitions, may require additional funding, and from time to time the Company may need to raise capital through additional equity or debt financing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 14th day of May 2003.

CVD EQUIPMENT CORPORATION

By: /s/ Leonard A. Rosenbaum
Leonard A. Rosenbaum
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Leonard A. Rosenbaum President, Chief Executive Officer and Director
Leonard A. Rosenbaum

/s/ Sharon Canese Chief Financial Officer and Secretary
Sharon Canese

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Certifications Pursuant to Rule 13A-14 or 15D-14 of the Securities exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Leonard A. Rosenbaum, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based upon my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based upon my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others

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- within those entities, particularly during the period in which this quarterly report is being prepared;
- b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b. Any Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 14, 2003

/s/ Leonard A. Rosenbaum

President, Chief Executive Officer and Director

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Certifications Pursuant to Rule 13A-14 or 15D-14 of the Securities exchange act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Sharon Canese, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation;
2. Based upon my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
3. Based upon my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for

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establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and
 - b. Any Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 14, 2003

/s/ Sharon Canese

Chief Financial Officer and Secretary