

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

CVD EQUIPMENT CORP
Form 10QSB
November 14, 2002

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 9-30-02
() 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)

1881 LAKE LAND 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 11-13-02

2

CVD EQUIPMENT CORPORATION
NOTE TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDING
SEPTEMBER 30, 2002

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

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, 2001. 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.

3

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 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

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

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.

4

SUBSEQUENT EVENTS

During October, 2002 we relocated our Conceptronic Division from Portsmouth, New Hampshire to our new facility in Ronkonkoma, New York.

Effective October 28, 2002, our Chief Financial Officer, Mitchell Drucker resigned. We are actively looking for a replacement.

Effective October 29, 2002 we received our final funding of \$1,114,816 as listed on the balance sheet, from General Electric Capital for our new facility at 1860 Smithtown Avenue, Ronkonkoma, New York. Upon receipt of this funding, we repaid the \$650,000 in short-term borrowings.

During November, 2002, we anticipate that our main offices will be relocated from our old facility at 1881 Lakeland Avenue, Ronkonkoma, New York to our new facility at 1860 Smithtown Avenue, Ronkonkoma, New York.

5

CVD EQUIPMENT CORPORATION BALANCE SHEET	SEPTEMBER 30 2002 (UNAUDITED)

ASSETS	
CURRENT ASSETS	
CASH AND CASH EQUIVALENTS	\$ 597,301
ACCOUNTS RECEIVABLE, NET	988,577
COST IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	445,333
INVENTORY	1,857,047
OTHER CURRENT ASSETS	162,936

TOTAL CURRENT ASSETS	4,051,194
PROPERTY, PLANT AND EQUIPMENT	5,607,948
DEFERRED TAX ASSET	268,623
OTHER ASSETS	143,451
INVESTMENT	1,114,816
INTANGIBLE ASSETS, NET	101,124

TOTAL ASSETS	\$11,287,156
=====	

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	\$ 664,261
ACCRUED EXPENSES	350,933
SHORT-TERM BORROWINGS	650,000
CURRENT MATURITIES OF LONG-TERM DEBT	484,509

TOTAL CURRENT LIABILITIES	2,149,703
LONG-TERM DEBT	3,362,637

TOTAL LIABILITIES	5,512,340

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
COMMON STOCK - \$0.01 PAR VALUE -10,000,000 SHARES AUTHORIZED; 3,039,100 AND 3,032,325 SHARES ISSUED & OUTSTANDING	30,391
ADDITIONAL PAID-IN CAPITAL	2,902,149
RETAINED EARNINGS	2,842,276

TOTAL STOCKHOLDERS' EQUITY	5,774,816

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$11,287,156
	=====

6

CVD EQUIPMENT CORPORATION STATEMENT OF OPERATIONS	THREE MONTHS ENDED SEPTEMBER 30	
	2002 (UNAUDITED)	2001 (UNAUDITED)
	-----	-----
REVENUES		
REVENUE ON COMPLETED CONTRACTS	\$ 2,411,683	\$ 2,312,811
REVENUE ON UNCOMPLETED CONTRACTS	453,898	(44,111)
	-----	-----
TOTAL REVENUES	2,865,581	2,268,700
	-----	-----
COSTS OF REVENUES		
COST ON COMPLETED CONTRACTS	1,660,095	1,317,100
COST ON UNCOMPLETED CONTRACTS	197,100	(10,150)
	-----	-----
TOTAL COSTS OF REVENUES	1,857,195	1,306,950
	-----	-----
GROSS PROFIT	1,008,386	961,750
	-----	-----
OPERATING EXPENSES		
SELLING AND SHIPPING	257,223	141,350
GENERAL AND ADMINISTRATIVE	674,827	479,360
	-----	-----
TOTAL OPERATING EXPENSES	932,050	620,710
	-----	-----
OPERATING INCOME (LOSS)	76,336	341,040
	-----	-----

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

OTHER INCOME (EXPENSE)		
INTEREST INCOME	3,103	18,56
INTEREST EXPENSE	(29,303)	(15,49)
GAIN ON SALE OF FIXED ASSETS	-	-
OTHER INCOME	382,197	-
	<hr/>	<hr/>
TOTAL OTHER INCOME	355,997	3,07
	<hr/>	<hr/>
INCOME BEFORE TAXES	432,333	344,09
INCOME TAX PROVISION	(32,582)	(102,63)
	<hr/>	<hr/>
NET INCOME (LOSS)	399,751	241,46
EARNINGS (LOSS) PER SHARE		
BASIC	\$ 0.13	\$ 0.0
DILUTED	\$ 0.13	\$ 0.0
WEIGHTED AVERAGE SHARES		
BASIC	3,037,991	3,019,19
DILUTED	3,095,426	3,237,75

7

CVD EQUIPMENT CORPORATION
STATEMENT OF CASH FLOWS

THREE MONTHS ENDED
SEPTEMBER 30

	2002 (UNAUDITED)	2001 (UNAUDITED)
	<hr/>	<hr/>
CASH FLOWS FROM OPERATING ACTIVITIES		
NET (LOSS) INCOME	\$ 399,751	\$ 241,46
Adjustments to reconcile net income to net cash provided by operating activities:		
DEFERRED TAX BENEFIT (PROVISION)	-	(56,28)
DEPRECIATION AND AMORTIZATION	79,740	63,79
GAIN ON SALE OF FIXED ASSETS	-	-
BAD DEBT	(8,027)	(120,50)
(Increase) Decrease In:		
ACCOUNTS RECEIVABLES	608,608	1,025,61
COST IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS	(369,482)	406,21
INVENTORY	(147,162)	61,63
OTHER CURRENT ASSETS	(36,917)	(30,96)
OTHER ASSETS	(13,388)	(19,72)
Increase (Decrease) In:		
ACCOUNTS PAYABLE	(31,489)	(193,00)
ACCRUED EXPENSES	(170,829)	337,60
BILLINGS IN EXCESS OF COSTS ON UNCOMPLETED CONTRACTS	(2,904)	-
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	307,901	1,715,83
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
CAPITAL EXPENDITURES	(429,447)	(14,28)
PROCEEDS FROM SALE OF FIXED ASSETS	-	-
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(429,447)	(14,28)
	<hr/>	<hr/>

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

CASH FLOWS FROM FINANCING ACTIVITIES

PROCEEDS FROM THE EXERCISE OF OPTIONS	1,500	8,54
PROCEEDS FROM DEBT	650,000	25
PAYMENTS OF LONG-TERM DEBT	(33,527)	(4,21)
	617,973	4,59
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	617,973	4,59
	496,427	1,706,14
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	496,427	1,706,14
	100,874	1,682,61
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	100,874	1,682,61
	\$ 597,301	\$ 3,388,76
CASH AND CASH EQUIVALENTS AT THE END OF THE QUARTER	\$ 597,301	\$ 3,388,76

8

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2002

REVENUE

An increase in volume resulted in third quarter of 2002 revenue being \$2,865,581, a 26% increase from third quarter of 2001 revenue of \$2,268,701.

COSTS AND EXPENSES

The cost of revenue increased to \$1,857,195 in third quarter of 2002 as compared to \$1,306,946 in third quarter of 2001. Of this \$550,249 increase, approximately \$304,000 is attributed to material, \$9,000 to freight in, \$186,000 to salaries, \$14,000 to utilities and \$12,000 to depreciation expense.

Selling and shipping expenses increased to \$257,223 in third quarter of 2002 from \$141,357 in third quarter of 2001. Of this \$115,866 increase, approximately \$55,000 is attributed to commissions, \$13,000 to travel expense, \$23,000 to salaries and \$18,000 to royalties.

General and Administrative expenses increased to \$674,827 in third quarter of 2002 from \$479,369 in third quarter of 2001. Of this \$195,458 increase, approximately \$112,000 was attributable to bad debt recoveries in the prior period, \$115,000 to salaries, \$11,000 to travel expense, \$17,000 to relocation expenses, \$10,000 to utilities, \$14,000 consulting fees, \$3,000 to medical expenses, \$7,000 to printing expense, \$5,000 to depreciation expense, which is offset by a decrease of \$122,000 to legal fees.

Interest expense increased by \$13,811 from \$15,492 in third quarter of 2001 to \$29,303 in third quarter of 2002, 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 \$382,197 from third quarter of 2001 to third quarter of 2002. Of this increase, \$379,000 is attributed to collection of accounts receivable above the purchase price, which is a non-recurring event.

9

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

NINE MONTHS ENDED SEPTEMBER 30, 2002

REVENUE

A decrease in volume resulted in nine months of 2002 revenue being \$6,396,813, a 32% decrease from nine months of 2001 revenue of \$9,476,628.

COSTS AND EXPENSES

The cost of revenue decreased to \$4,408,446 in nine months of 2002 as compared to \$5,762,811 in nine months of 2001. Of this \$1,354,365 decrease, approximately \$1,543,000 is attributed to material, \$55,000 to manufacturing supplies, which is offset by an increase in salaries of \$238,000.

Selling and shipping expenses increased to \$634,756 in nine months of 2002 from \$540,808 in nine months of 2001. Of this \$93,948 increase, approximately \$59,000 is attributed to salaries, \$5,000 to advertising expense, \$53,000 to royalties, \$22,000 to travel, which is offset by a decrease of \$27,000 to freight expense and \$25,000 to commissions.

General and Administrative expenses increased to \$1,696,089 in nine months of 2002 from \$1,593,078 in nine months of 2001. Of this \$103,011 increase, approximately \$209,000 is salaries, \$27,000 to relocation expenses, \$18,000 to travel expense, \$9,000 to utilities expense, which is offset by a decrease of \$164,000 in legal fees.

Interest expense increased by \$27,977 from \$49,247 in nine months of 2001 to \$77,224 in nine months of 2002, because the company's average outstanding debt increased, as a result of the mortgage on the new building purchased in March 2002.

Gain on sale of fixed asset decreased by \$35,166 in nine months of 2002 from nine months of 2001.

Other income increased to \$404,682 in third quarter of 2002 from \$6,053 in third quarter of 2001. Of this \$398,629 increase, \$379,000 is attributed to collection of accounts receivable above the purchase price, which is a non-recurring event.

LIQUIDITY AND CAPITAL RESOURCES

By the end of the third quarter of 2002, the Company's cash position decreased to \$597,301 from \$2,361,150 at the beginning of the year. The decrease in cash is largely attributed to the cash layout for the new building, which \$345,000 was for the building acquisition, \$1,012,000 for the building's renovations, \$856,000 was for the purchase of certain assets of the Surface Mount Technology (SMT) business, \$155,992 for the new building's mortgage and \$222,000 for machinery equipment, which is offset by an increase of \$650,000 borrowed against the line of credit.

10

However, as part of the building acquisition and the associated mortgage transaction, an escrow account was established. This escrow account was set up to fund the building renovation. This escrow account is not accessible by CVD Equipment Corporation, until the building renovations are complete, the mortgagee inspects the new facility and a new certificate of occupancy is issued. The initial escrow amount was \$1,106,250 on March 7, 2002. Interest on this escrow to the end of the third quarter was \$8,566. Hence, the

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

escrow balance at the end of the third quarter was \$1,114,816.

At the end of the third quarter of 2002, the Company's account receivable position decreased to \$988,577 from \$ 1,212,237 at the beginning of the year. This decrease was attributable to timing of customer payments and billings.

At the close of the third quarter of 2002, the Company's backlog increased to \$2,966,348 from approximately \$1,389,004 at the beginning of the year. This increase is attributed to an increase in order levels.

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.

11

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 13th day of November 2002.

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

12

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Leonard A. Rosenbaum, President, Chief Executive Officer and Director of CVD Equipment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation (the "Registrant");
2. Based on 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

Edgar Filing: CVD EQUIPMENT CORP - Form 10QSB

statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on 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.

Dated: November 13, 2002
/s/ Leonard A. Rosenbaum

President, Chief Executive Officer and Director

13

ACTING CHIEF FINANCIAL OFFICER CERTIFICATION

I, Leonard A. Rosenbaum, Acting Chief Financial Officer of CVD Equipment Corporation certify that:

1. I have reviewed this quarterly report on Form 10-QSB of CVD Equipment Corporation (the "Registrant");

2. Based on 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; and

3. Based on 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.

Dated: November 13, 2002
/s/ Leonard A. Rosenbaum

Acting Chief Financial Officer